

# Pension Benefit Guaranty Corporation Office of Inspector General

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PENSION BENEFIT GUARANTY CORPORATION

OFFICE OF INSPECTOR GENERAL

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SEMIANNUAL REPORT TO CONGRESS  
APRIL 1, 2009 - SEPTEMBER 30, 2009



# Pension Benefit Guaranty Corporation

Office of Inspector General

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

The Board of Directors  
Pension Benefit Guaranty Corporation

During the six month period covered by this report, the PBGC Office of Inspector General issued three audit reports with 19 recommendations for improvement. We completed 17 investigations, resolved 58 complaints and had four cases accepted for prosecution by the various U.S. Attorney's Offices. My testimony before the Senate Special Committee on Aging described OIG's work to address the former PBGC Director's involvement with procurement activities.

Working jointly with PBGC, we were able to close 22 prior audit recommendations. However, information that came to our attention during the reporting period caused us to reopen 15 audit recommendations that had been previously closed. These reopened recommendations also caused us to reopen three previously closed audit reports, when we learned that corrective actions had been incorrectly reported to OIG.

This semiannual report describes some of the positive actions that PBGC took between April 1 and September 30, 2009.

- The PBGC Board of Directors acted appropriately and promptly in response to our report detailing concerns with the actions of the former PBGC Director. Responding to a recommendation of the Acting Director, the Board directed PBGC to cancel three Strategic Partnership contracts for the management of PBGC assets totaling \$2.5 billion and to develop a policy regarding proper separation of duties for the PBGC Director.
- While final corrective actions have yet to be agreed on and completed, PBGC staff have worked hard to begin implementing many of the specific controls recommended in our evaluation of PBGC's Securities Lending Program.
- In response to our recommendations for strengthening the Corporation's ability to address continuing information technology challenges, on September 29, 2009, the Acting Director announced a decision to assign the Chief Operating Officer and the General Counsel to assist the Chief Information Officer in developing a coordinated approach. Since that time, we have continued to work with management at all levels in an effort to achieve increased efficiency and effectiveness in PBGC's IT infrastructure.

Other important actions were initiated prior to the end of this reporting period but have yet to be completed. We appreciate the cooperation you, your staffs, and the PBGC management team have provided to the OIG. We look forward to continuing this productive and professional working relationship as we continue to help PBGC meet its important challenges.

Sincerely,

Rebecca Anne Batts  
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 April 1, 2009 through September 30, 2009. During this reporting period, a primary focus of our work was in the financial area:

- An audit that involved virtually all OIG audit staff dealing with PBGC's implementation of its investment policy took a new direction when a whistleblower alleged that the former PBGC Director was inappropriately involved in procurement activities relating to investments. Our work resulted in a report finding that the former Director's direct and active participation in contracting for investment services resulted in a lack of separation of duties and created the appearance that the procurement decisions were not fair and impartial. As a result of our report, PBGC's Board of Directors terminated three contracts with Wall Street investment firms for the investment of \$2.5 billion in PBGC's assets. (see pages 6-7)
- We also opened a criminal investigation of related issues in response to a bipartisan request. (see page 7)
- Additionally, the Inspector General was called to testify before the Senate Special Committee on Aging about our work addressing the former Director's actions. (see pages 7-8)
- We evaluated PBGC's activities with respect to the securities lending program, which forms a part of PBGC's investment program. We reported about positive aspects of the program, such as the knowledge level of staff who monitor securities lending. We also described areas for improvement. For example, written policy and implementing procedures relating to securities lending were virtually non-existent. We also found that PBGC could not independently validate the earnings it received. (see pages 9-11)
- Much of our effort was focused on the financial statement audit and associated work in the information technology (IT) area, including vulnerability testing and assessment of FISMA compliance. We did not issue reports on these topics within this reporting period; however, our work has confirmed the persistence of many substantial IT weaknesses that had been reported in prior years. (see pages 13-14)

In addition, we have two projects in process requested by Members of Congress:

- Senator Kohl, Chairman of the Special Committee on Aging, asked us to evaluate PBGC's readiness to address the potential influx of pension plans and their participants as a result of recent economic conditions. (see page 15)
- Senators Klobuchar and Franken and Congressman Oberstar were concerned about benefit reductions for constituents who worked in the Minnesota taconite mines and asked us to evaluate PBGC's actions in terminating and establishing the pension benefits. (see page 16)

Another focus was following up on corrective actions that had been incorrectly reported to the OIG as completed. One area of concern was PBGC's response to a

contractor's security breach and disclosure of personally-identifiable information. Another area of concern was PBGC's certification that certain audit recommendations had been effectively implemented through issuance of Standard Operating Procedures. Our review showed the procedures had not actually been implemented, despite management's certification that the process were "in place and effective." (see pages 17-19)

# 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.

During FY 2009, PBGC managed about \$70 billion in assets and paid about \$4.5 billion in benefits to almost 744,000 retirees and beneficiaries. The Corporation reports having sufficient liquidity to meet its obligations for a number of years, despite a cumulative deficit of \$21.9 billion from the single-employer and multiemployer programs. Neither program at present has the resources to satisfy all of the benefit obligations already incurred, much less future obligations likely to be assumed.

PBGC's governance structure comprises the Board of Directors, their Board Representatives, a Presidentially-appointed Director, and Congressional oversight. Other elements of governance include PBGC's system of internal control, its clearly articulated authority to act, and the policies and procedures under which PBGC operates. PBGC governance is complex and requires those who are charged with its oversight to view the Corporation from a number of differing perspectives. Oversight by the PBGC Board, PBGC management and the OIG is critical to effective corporate governance.

## The Office of Inspector General

Our Office of Inspector General (OIG) was created under the 1988 amendments to the Inspector General Act of 1978. We provide an independent and objective voice that helps the Congress, the Board of Directors, and PBGC protect the pension benefits of American workers. Like all Offices of Inspector General, the PBGC OIG is charged with providing leadership and recommending policies and activities designed to prevent and detect fraud, waste, abuse, and mismanagement; conducting and supervising independent audits and investigations; and recommending policies to promote sound economy, efficiency, and effectiveness.

*Effective oversight is  
a critical element of  
corporate governance.*

*The OIG is organizationally independent and reports to PBGC's Board of Directors and Congress.*

To provide value, we focus our work on the challenges facing PBGC. We strive to target the highest risk areas and emphasize timely reporting of results. We determine what we will investigate and audit and how we will conduct those investigations and audits. We determine our own priorities and have had our own independent legal counsel since 1990. Our audit and investigative staff is competent and experienced, with professional backgrounds in other Offices of Inspector General, independent accounting firms, and federal criminal investigative agencies. We independently respond to Congressional requests and initiate contact with Congress, as warranted.

The OIG is in full compliance with 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). Our audit work is performed in compliance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States and our investigations are performed in compliance with PCIE and ECIE Quality Standards for Investigations.

The PBGC OIG is organizationally independent. The Inspector General reports directly to the highest level of PBGC governance, the PBGC Board and to Congress. In executing our independent oversight role, we perform a range of legally-mandated work (e.g., the annual financial statement audit and the annual Federal Information Security Management Act review) as well as a body of discretionary work.

# Management Challenges

During this semiannual period, PBGC faced the financial turmoil affecting much of the American investment community. The prospect of unprecedented numbers of bankrupt pension plan sponsors and the terminations of their pension plans created uncertainty, as did questions that arose as to whether certain U.S. automakers would go into bankruptcy and whether PBGC would become responsible for automaker pension plans with close to 1 million participants. Many companies across a wide range of sectors – manufacturing, banking, health care, and retail – also suffered sharp declines in investment and business profitability, thus creating additional challenges for PBGC as well as for the defined benefit pension plans it insures. PBGC’s deficit reached \$21.9 billion as of September 30, 2009. Nevertheless, PBGC states it has the resources to meet its commitments to America’s retirees for many years to come.

Between April 1, 2009 and September 30, 2009, we issued three audit reports, initiated 15 investigations, issued 17 reports of investigation, and closed 58 complaints. A total of four cases were accepted by United States Attorneys. The results of our efforts this period are detailed below.

## OIG Efforts Focused on PBGC’s Investment Policies and Practices

The overarching goal of PBGC’s investment activities is to help ensure that the PBGC will be able to meet its obligations to the 1.3 million Americans who depend on it for their pension benefits. As of September 2009, PBGC’s total investments were valued at \$59.7 billion. PBGC invests trustee pension funds to increase the likelihood that the Corporation will be able to meet its long-term obligations. The PBGC currently has a multi-billion dollar shortfall, and faces the possibility that someday it will run out of money.

In September 2008, our office initiated an audit to review PBGC’s implementation of its February 2008 investment policy. The objectives of our audit were to identify the strengths and weaknesses of PBGC’s approach to executing its investment policy and to determine the effectiveness of PBGC’s plan to identify and mitigate key risks that could affect investment performance or limit anticipated benefits. While performing this work, we became aware of serious allegations about former PBGC Director Charles E.F. Millard’s involvement in the procurement process used to select the investment managers responsible for executing aspects of the new policy. As a result of our review of the former Director’s activities, during this semiannual period, we:

- Issued an audit report addressing the former Director’s involvement in contracting for investment services,
- Initiated an investigation pursuant to a bi-partisan request from Senators Baucus and Grassley of the Senate Finance Committee and Senators Kennedy and Enzi of the Senate Committee on Health, Education, Labor and Pensions (HELP), and
- Provided testimony before the Senate Special Committee on Aging.

### *Investment Policy*

#### *implementation work*

#### *included:*

- *Audit of former Director’s procurement activities*
- *Testimony before Special Committee on Aging*
- *A criminal investigation of the former Director*

## Audit Report Issued - Former Director's Involvement in Contracting for Investment Services Blurs Roles and Raises Fairness Issues

AUD-2009-5/PA-08-63-1

(<http://oig.pbgc.gov/audit/2009/pdf/PA-08-63-1.pdf>)

*A whistleblower drew the OIG's attention to the former Director's procurement activities.*

While conducting the audit of PBGC's implementation of its new investment policy, we received a whistleblower complaint that former PBGC Director Charles E.F. Millard was improperly involved in the procurement process used to select the investment managers responsible for executing aspects of the policy. Of particular concern was the Strategic Partnership procurement that would allocate about \$2.5 billion to the alternative investments of real estate and private equity and would generate potential fees of more than \$100 million for the selected Strategic Partners.

We reported that the former PBGC Director inappropriately communicated with bidders during the time when such contact was forbidden by PBGC policy and the Federal Acquisition Regulation (FAR), thus raising serious questions about the integrity of the procurement process for the Strategic Partnership contracts. Phone records and emails show that the former Director was communicating directly with some bidders at the same time that he was actively evaluating their Strategic Partnership proposals, a clear violation of the prohibition on contact with potential offerors.

Further, the former Director took an unprecedented role in the procurement process, to include serving on Technical Evaluation Panels (TEP) to formally assess some of the same Wall Street firms with whom he was in frequent contact; at a minimum, this violated the principle of separation of duties. Separation of duties is required for effective management control and the lack of separation leaves PBGC vulnerable to concerns of real or perceived bias. Due to the former Director's frequent contact with bidders, coupled with his participation in the procurement process, senior level staff expressed doubts about the fairness of his decisions and the selection of winners for the strategic partnership contracts. The former Director's contact with bidders allowed some, but not all, to have frequent and in-depth access to a key procurement decision-maker. Further, the continuing contact provided an opportunity for some, but not all, bidders to enhance the former Director's level of confidence in their firms' knowledge and skills.

Finally, the post-award assistance he received from an executive of one of the winning bidders raises serious ethical concerns. Our review of the former Director's email records disclosed extensive communication with an investment firm executive, occurring after the award of a \$700 million Strategic Partnership contract. Troubling evidence included 29 emails between the investment firm senior official and the former Director, assisting him in his search for employment. For example, the former Director provided his resume, bio, and six news articles to the executive, who in turn forwarded the materials to others in the financial community, including those with whom the investment firm had a business relationship. Employment assistance provided by the investment firm executive to the former Director included personal meetings, strategic advice, introductions to potential employers, and help with meeting arrangements.

The former Director was advised that his actions could cast doubt on the integrity of the procurement process, but he did not heed these warnings. Because the former Director's subordinates were unable to prevent the activities described in our report, and because internal guidance could be changed by a future Director, we determined that it was unlikely that PBGC employees could take effective action to prevent similar abuses by future Directors. Therefore, our recommendations were made to the PBGC Board of Directors (Board), in recognition of their important oversight role of PBGC and the PBGC Director.

The PBGC Board acted promptly and appropriately in response to our report, directing the Acting PBGC Director to provide the Board with his recommendation for continuing or cancelling the contracts. The Acting Director recommended that the contracts be cancelled. By Board Resolution 2009-06, the Board directed PBGC to cancel the three Strategic Partnership contracts and to develop a policy regarding proper separation of duties for the PBGC Director, including appropriate boundaries for procurement participation.

### Investigation Opened in Response to Bipartisan Request

PBGC's Senate oversight committees –the Senate Finance Committee and the Senate HELP Committee – were closely monitoring the progress of our work concerning the former Director's procurement activities. On May 14, 2009, the day before issuance of our audit report, Senators Kennedy and Enzi of the Senate HELP Committee and Senators Baucus and Grassley of the Senate Finance Committee issued a joint letter to our office requesting further investigation into the former Director's later contacts with executives at companies that were awarded Strategic Partnership contracts. We agreed to do so. The following day, the four Senators wrote to the United States Department of Justice asking them to open a criminal investigation into the former Director's actions. Since that time, our OIG investigators have been conducting this investigation under the direction of the Office of Public Corruption of the United States Attorney's Office in the Southern District of New York.

### Testimony before Senate Special Committee on Aging (<http://oig.pbgc.gov/reports/testimony/052009testimony.pdf>)

The Inspector General testified before the Senate Special Committee on Aging on May 20, 2009, to highlight the results of our audit of the former Director's involvement with procurement activities. She explained that the former Director had assumed de facto responsibility for key procurement actions, thus violating the principle of separation of duties.

Further, the Inspector General testified that the former Director interacted with some, but not all bidders, in a manner that failed to reflect integrity, fairness, and openness, as required by the FAR and by government ethics regulations. For example, prior to the issuance of the solicitation for bids, the former Director had a two-day email exchange with a potential bidder who subsequently was awarded a Strategic Partnership contract to manage \$900 million in PBGC assets. The former Director and the company

*Congress asked OIG to investigate the former Director's contacts with Wall Street firms.*

*In testimony,  
Inspector General  
told Congress about  
former Director's  
serious misconduct.*

executive strategized about how to establish specific criteria for bidders that would “winnow the field” and “eliminate [certain firms] from consideration.” This exchange of emails was inconsistent with the former Director’s responsibility as set forth in the FAR, to ensure that government business was “conducted in a manner above reproach and ... with complete impartiality and with preferential treatment for none.”

The Inspector General emphasized the seriousness of our findings and recommendations for the Board to determine whether the Strategic Partnership contracts should be cancelled and to develop policy to enforce proper separation of duties for future directors, including restriction from serving on procurement technical evaluation panels. She reported that the Board had agreed with our findings and committed to taking action.

Finally, the Inspector General expressed gratitude for the role of a whistleblower in alerting the OIG to the former Director’s inappropriate procurement activities. Those who report suspected wrong-doing put the Corporation’s interest above their own interest to be free from possible retaliation.

### Observations on the Implementation of PBGC’s Investment Policy (PA-08-63)

In addition to instructing the Corporation to cancel the Strategic Partnership contracts, PBGC Board Resolution 2009-06 instructed PBGC to cease implementation of the February 2008 investment policy. Since this decision rendered our ongoing review moot, we discontinued our audit of the implementation of the policy. However, as allowed by audit standards, we shared our observations with PBGC managers for their use in transitioning to any future investment policy as approved by the Board.

- **Transition Plan.** We noted that PBGC initially began its transition to the new asset allocations outlined in the February 2008 investment policy without preparing a complete, formal, comprehensive, written transition plan to facilitate the prudent implementation of the investment policy. In September 2008, PBGC provided OIG a binder entitled “Compendium of Investment Program Transition Related Documents.” This Compendium included a transition bar chart and timeline, but did not include such key elements as: a risk analysis, accountability measures to monitor progress, documentation to support how decisions would be made (e.g., who had what authority), or a delineation of roles and corresponding responsibilities related to the transition. However, after our initial discussions with the Corporation, PBGC’s Corporate Investments Department (CID) began developing more detailed transition planning documents that included a discussion of the challenges involved in such a large-dollar investment portfolio transition.
- **Risk Management.** Once an organization initiates a portfolio transition, risk management is a critical component of minimizing implementation shortfall. However, at the inception of the transition process, PBGC had not documented its procedures for the management of transition-related risks. PBGC completed several key transition activities, such as the selection of three investment management firms for Strategic Partnership contracts to manage \$2.5 billion in

PBGC assets, before risks and mitigating methods related to the transition were even documented. Nine months after the adoption of the new investment policy, PBGC provided OIG a document entitled “Transition Management: Risks and Mitigating Methods,” a 14-point risk matrix developed jointly by PBGC and one of its investment advisors. Developing the risk matrix is an important first step. However, PBGC should take steps to ensure that the mitigating actions are actually implemented as part of asset trading decisions. Further, PBGC should continue to identify additional risks and develop mitigations, as appropriate.

## OIG Addressed PBGC’s Securities Lending Program

Securities lending is a trading technique in which an owner of securities lends a portion of its stock portfolio to a borrower, such as a hedge fund, and receives cash in return as collateral. As of September 30, 2008, the value of PBGC’s securities on loan was \$3.6 billion and PBGC had earned income from securities lending of \$34.6 million. Though the revenue earned from securities lending is only a small part of PBGC’s investment strategy, our review highlighted areas that warrant PBGC’s additional consideration. After issuing our report and as part of our follow-up activities, we provided comments to enhance the draft securities lending policy developed by PBGC.

**Report Issued - Evaluation of the PBGC’s Activities With Respect to Its Securities Lending Program**  
EVAL-2009-06/ FA-08-51  
(<http://oig.pbgc.gov/audit/2009/pdf/FA-08-51.pdf>)

Securities lending transactions are meant to provide a twofold benefit: the securities’ owner can make money by investing the cash collateral and can continue to benefit from the loaned stock through its dividends and any appreciation in its value. This practice has historically been considered a low risk means to obtain incremental investment return. However, recent significant collateral and borrower defaults have led to changes in this perception.

The OIG hired Independent Fiduciary Services (IFS) to evaluate PBGC’s securities lending program activities at State Street Bank, in particular the adequacy of the internal controls surrounding PBGC’s monitoring of State Street’s activities and the securities lending contract; how the securities lending contract and agreement compare to similar agreements in the industry; and whether the arrangement is advantageous to PBGC. Our report identified programmatic strengths and weaknesses and included recommendations for enhancements to the program.

The evaluation addressed several positive aspects of PBGC’s securities lending program. For example, we reported that the agreements between PBGC and State Street Bank were appropriately comprehensive and generally favorable to PBGC. Further, we reported that the PBGC employees who monitor and manage the securities lending program were knowledgeable and that State Street Bank processed transactions in accordance with industry and contractual standards.

*Securities lending, a part of PBGC’s investment strategy, has been perceived to be more risky since the economic downturn.*

*PBGC should document its securities lending policies and implementing procedures, and independently validate its earnings.*

Our report also described needed improvements to PBGC's securities lending program. We reported that written policy for the PBGC securities lending program was virtually non-existent. At the time of our review, the PBGC Investment Policy stated merely that "Securities lending is allowed" and provided no additional guidance. We also noted the absence of written guidance at all levels, from the highest level down, to address important issues such as investment objectives, risk tolerance, measurement standards, and requirements to periodically review and modify or reaffirm the policy. Further, we found little documentation of the procedures used to implement, oversee, and monitor the program against policy standards and benchmarks.

PBGC was unable to independently validate that its gross and net revenues earned have been correctly calculated by State Street Bank. We attempted to re-calculate the expected fees on a sample of loans and found that we were also unable to do so. For loans outstanding for more than one day, some of the variables changed during the course of the loan and State Street advised that the bank was unable to provide the data for the variables that had changed. We further noted that the pricing schedule for PBGC's custody relationship with State Street Bank lacked clarity, as it disclosed only the split ratio and the expected net revenue "after fees" to PBGC with no explanation of how that amount was determined.

At the time of our review, PBGC was relying on the audited financial statements of the Quality A Fund and the absence of findings of erroneous calculations in the SAS 70 audit for assurance that PBGC's earnings were properly calculated. PBGC was not alone in its decision to rely on State Street Bank's internal controls for assurance that loan revenue is calculated correctly. Due to the difficulty of calculating loan revenue, lenders frequently rely on the agent bank's controls, without independent verification of amounts earned. However, given PBGC's status as the largest participant in the State Street Bank's Quality A Fund, with ownership of about 40 percent of the fund's assets, we concluded that PBGC should explore how State Street could provide additional assurance on the correctness of its earnings by providing monthly revenue reports that could be tied to the activity and returns of the fund. We also recommended, to the extent that such information could be provided, that PBGC establish procedures for contemporaneous verification of loan fees earned by PBGC. PBGC concurred with our recommendation and agrees to explore with State Street ways to obtain greater assurance regarding the accuracy of reported earnings.

With respect to the lack of policy, our report noted that the Board of Directors is an important part of PBGC's governance, and setting policy is the Board's statutory responsibility. Therefore, we recommended that the Board provide specific guidance in its Investment Policy Statement and review more detailed internal written guidelines prepared by PBGC that would establish the broad parameters and objectives of the program. The balance of our recommendations were made to strengthen both PBGC's stewardship of entrusted pension assets and its contractual relationship with its securities lending agent, State Street Bank. In responding to the report, PBGC noted that securities lending is a small but important component of PBGC's overall investment program. Noting agreement with most of the report's findings, PBGC provided proposed corrective actions.

## Audit Follow-up – Securities Lending Program

In response to one of our recommendations in our evaluation report on PBGC's Securities Lending program, PBGC's Corporate Investments Department drafted a proposed "Securities Lending Investment Policy" and requested the OIG's comments on the draft. As part of our routine audit follow-up and as permitted by audit standards, we suggested enhancements to the draft policy that included clarifying the objectives of the program, establishing parameters to assess performance, and defining risk mitigation strategies.

## Contract Audit Included Findings Similar to Those Reported in the Past

Zimmerman Associates, Inc. Agreed-Upon Procedures to Verify Contract Personnel Qualifications  
AUD-2009-7/ CA-08-53  
(<http://oig.pbgc.gov/audit/2009/pdf/CA-08-53.pdf>)

We hired an Independent Public Accountant (IPA) to perform agreed-upon procedures to verify contract personnel qualifications of a PBGC contractor hired to provide professional staff to manage and operate the Benefits Administration and Payment Department (BAPD) Document Management Center. The contract was valued at \$5.4 million for Fiscal Years ended September 30, 2006 and 2007. The contract became effective September 30, 2005, with four option year periods.

The objective was to determine whether the contractor processes were adequate to ensure that qualified personnel were assigned to the PBGC contract covering fiscal years ended September 30, 2006 and 2007. The IPA found the contractor did not always verify that assigned personnel met experience requirements specified in the contract because there was no contractual requirement to verify experience. This finding is similar to others that we have reported in prior Semiannual Reports.

We recommended to PBGC's Contracting Officer that contracting officials be required to implement internal controls and procedures to ensure that required experience is verified and documented for all employees prior to assigning personnel to PBGC contracts. PBGC concurred in principle with the recommendation and provided an alternative corrective action in response to our recommendation. PBGC officials committed to (1) alert the contractor to the issue for any future government work it may perform; and (2) insert a clause in its future contracts, where minimum employee qualifications are specified, establishing contractor's responsibility to independently verify employees' education and experience and its responsibility to maintain records of its verification actions.

*PBGC agreed to require contractors to verify their employees' qualifications in labor-hour contracts.*

*We are working on prosecutions with U.S. Attorney's Offices in Washington DC and the Southern District of New York.*

## OIG Office of Investigations Addressed a Wide Range of Issues

The Office of Investigations is currently working with the U.S. Attorney's Offices in Washington, DC and the Southern District of New York on prosecutions of four matters.

Between April 1 and September 30, 2009, we closed 17 investigations. The following three examples demonstrate the range of issues we investigated.

**Possession of an Illicit Substance.** The Office of Investigations investigated a complaint involving possession of an illicit substance by a PBGC employee. Two PBGC employees standing in the lobby at 1200 K Street witnessed a PBGC employee drop a small plastic bag as he retrieved his identification badge from his pocket. The OIG investigator used photographs from the lobby security cameras to identify the PBGC employee who had dropped the bag. After being shown the suspected illicit substance and still pictures printed from the security cameras, the employee admitted that he had dropped a small bag of marijuana as he entered the building. The employee was subsequently disciplined and placed on five days' unpaid leave.

**Recovery of Improper Pension Payments.** Although a PBGC plan participant had died in April 2007, his pension payments continued after his death. His girlfriend spent the continuing payments and failed to notify PBGC of the participant's death. After receiving a declination to prosecute from both federal and state prosecutors, OIG investigators assisted in a recovery effort that resulted in the girlfriend repaying the PBGC approximately \$10,000 in pension overpayments.

**Allegations of Unauthorized Computer Access.** The Office of Investigations received an allegation that a PBGC employee had accessed, without authorization, the computer assigned to a member of the Information Systems Security Office (ISSO) team. According to the allegation, files created by a PBGC employee with widespread system access were identified by the Information Systems Security Officer and characterized as an incident of unauthorized access. In response to the allegation, OIG criminal investigators conducted an electronic crimes investigation of the affected user's computer. Additionally, OIG criminal investigators conducted a system wide review of user accounts to identify additional unauthorized system accesses, if any, involving the suspected offender. At the conclusion of the investigation, OIG determined that the PBGC employee had not accessed the affected user's computer or any other user accounts. Instead, our review showed that the files that appeared to demonstrate unauthorized access had actually been created and saved as temporary files to the system when the files were accessed by members of the ISSO.

# Significant Audit Efforts are Ongoing

## Annual Audits of the PBGC's Financial Statements (Project FA-09-64)

The OIG is statutorily required to audit PBGC's annual financial statements. For FY 2009, we contracted with Clifton Gunderson to audit PBGC's financial statements and to complete several other related audits and evaluations. Audit coverage includes an assessment of internal controls across the Corporation, to include all financially significant systems. As of September 30, 2009 the ongoing audits are confirming the persistence of many significant information technology (IT) weaknesses that have been reported in previous years. Additionally, new and potentially more serious issues have come to light and will be reported during our next semiannual reporting period.

As of September 30, 2009, this audit was in progress but drawing to a close. Subsequent to the end of the reporting period, in November 2009, the OIG issued opinions and reports relating to the audit of PBGC's financial statements. While we expected the opinion on the financial statements to be unqualified, the opinion on internal control was not likely to be favorable, based on significant IT weaknesses discussed below.

**Opinion on the Financial Statements.** The objectives of our financial statements audit are to provide: (1) an opinion of reasonable assurance as to whether the agency's financial statements are presented fairly in all material respects; (2) an opinion on internal control over transaction processing for accurate financial reporting; and (3) an assessment of compliance with applicable laws and regulations.

**Opinion on the Special-Purpose Financial Statements.** As part of the financial statements audit, we also issue an opinion on the Corporation's special-purpose financial statements, which directly link PBGC's audited financial statements to the Financial Report of the United States Government, a document prepared by the Department of the Treasury and audited by the Government Accountability Office.

**Sensitive Payments Testing.** In conjunction with the financial statements audit, Clifton Gunderson LLP performed testing of sensitive payments, including senior level management activities and expenses, such as compensation, travel, perquisites, preparation of required financial disclosure forms, and PBGC vehicle usage. Results of this testing are incorporated into financial statements audit reports, as appropriate.

**Penetration Testing.** In connection with the FY 2009 financial statements audit, we contracted with Clifton Gunderson to perform IT vulnerability assessment and penetration testing. This work included social engineering, and external and internal vulnerability assessments to discover possible weaknesses in PBGC's logical security controls and to exploit discovered vulnerabilities. The goal of our assessment was to determine the degree of control PBGC could expect an attacker to achieve after a successful penetration. During our assessment, we discovered live hosts residing on external and internal PBGC networks. We conducted overt and covert vulnerability

*Significant efforts were focused on the annual financial statement audit.*

*PBGC incorrectly reported progress in correcting IT deficiencies.*

assessments on IP addresses in use. We obtained approval prior to exploitation of discovered vulnerabilities to attempt to gain access to sensitive data.

On September 10, 2009, we briefed the Corporation on its most serious IT security vulnerabilities. Based on the major issues we identified, we made appropriate recommendations to PBGC management, including the need to ensure that PBGC systems have the most current patches and updates for all systems and to strengthen or harden the configuration of PBGC's operating systems and applications.

### Assessment of PBGC compliance with FISMA

During FY 2009, PBGC management reported significant progress in the remediation of IT-related significant deficiencies that had been reported in prior year financial statements audits including weaknesses in entity-wide security program planning and management and access controls. Based on PBGC's representations of significant progress in the areas of entity-wide security we contracted with Clifton Gunderson to conduct an in-depth assessment of PBGC's compliance with the Federal Information Security Management Act (FISMA). FISMA requires each federal agency to develop, document, and implement an agency-wide program to provide IT security for the information and information systems that support the operations and assets of the agency.

While conducting the internal controls testing this year, Clifton Gunderson found that there was little support for much of the progress that had been reported. In fact, though some limited activity had occurred, the number and severity of the deficiencies had worsened.

An effective information security program should include accurate Certification and Accreditation (C&A) documentation, effective security awareness training, adequate contingency plan testing, periodic evaluations of IT controls and effective hardware and software. As of September 30, 2009, FISMA testing was still on-going, though we had reported to PBGC numerous IT weaknesses. Some, like the deficiencies in the C&A process, were reported last year and remain virtually unchanged. Others were new.

FISMA requires the agency to report in ten specific areas relating to the state of its IT security, and the OIG independently to assess the agency's IT security assessment. OMB has developed a mandatory template report for consistent reporting across the government. Subsequent to the close of this reporting period, the OIG filed a joint report with PBGC on the current status of PBGC's IT security to OMB on November 18, 2009. We plan to issue a narrative report to PBGC with detail about the findings and recommendations for corrective action.

### IT Issues Will Impact PBGC's Preparedness to Face Potential Influx of Pension Plans

PBGC's core missions are to insure certain defined benefit pension plans and, if necessary, terminate those pension plans and provide benefits to the plan

participants in an effective, efficient, economic, and timely manner. The recent global economic downturn has impacted all sectors – e.g., financial, industrial, health care - and increased the risk of distress occurring in the company-sponsored defined benefit pension plans that PBGC insures. PBGC may be called upon to address an unprecedented influx of large defined benefit pension plans if companies can no longer afford to maintain their pension plans. The state of PBGC's IT systems puts PBGC at risk of being unable to timely and efficiently accomplish its mission.

### Request from Special Committee on Aging to Evaluate PBGC's Preparedness (Project PA-09-05)

At the request of Chairman Herbert Kohl of the Senate Special Committee on Aging, we initiated an engagement to evaluate PBGC's readiness to address the potential increase in workload attributable to changes in the economy. Chairman Kohl asked OIG to evaluate whether "PBGC management is taking steps to strategically prepare the corporation for the possible influx of such plans and their participants."

To assess PBGC actions to prepare for the possible influx of pension plans with large numbers of participants in the near future, we are examining:

- 1)the steps PBGC management is taking to prepare for a possible increase in the number of terminated plans;
- 2)the extent to which an increase in the number of terminated plans presents challenges, if any, for PBGC management in both termination and benefit delivery processes;
- 3)the effectiveness of PBGC processes for identifying, prioritizing, and obtaining needed resources, such as human capital; and
- 4)the steps PBGC management is taking to ensure continued customer service and effective Field Benefit Administration offices in the event of termination increases.

We have briefed preliminary observations to both PBGC management and Senator Kohl's staff, noting that PBGC had initiated planning efforts to ensure that PBGC's core functions – insurance programs and benefits administration – have the necessary resources (including staff and budget) to address the incoming workload. A potential challenge is PBGC's reliance on contractors to do much of its work, which may be an advantage if the contracts can be easily modified to expand the workforce. A more pressing challenge is the serious weakness in IT systems, particularly because the amount of out-dated equipment may not withstand the stress of processing large numbers of additional plans and participants.

As part of a new executive-management focus on IT, PBGC is acknowledging the risk of system failure and moving to develop short-term and long-range plans to address the risk. As we have moved through this evaluation, we have periodically briefed Congress and PBGC on our findings. We will report the results of this evaluation, including findings and recommendations, in the near future.

*IT issues impair PBGC's ability to prepare for possible influx of pension participants.*

## Congressional Request: Evaluation of Benefits Paid to Minnesota Steelworker Participants (Project PA-09-66)

Congressional leaders from Minnesota are concerned about their steelworker constituents who have earned pension benefits based on work at taconite mines in Minnesota. Beginning in 2002, when PBGC terminated and trustee several Minnesota steelworker pension plans, the pension benefits of thousands of plan participants were reduced. While there were unique circumstances regarding each plan termination, the Minnesota congressional members are concerned about the perceived disparities between pension plan benefits for these steelworkers.

At the request of U. S. Senators Amy Klobuchar and Al Franken and U.S. Congressman James Oberstar, we initiated an engagement to evaluate PBGC's actions in terminating and establishing the benefits of the Minnesota steelworker pension plans to identify potential improvements that PBGC can apply when taking in new plans. Additionally, we have established a dedicated email account: [OIGMinnsteelworkerReview@pbgc.gov](mailto:OIGMinnsteelworkerReview@pbgc.gov) to allow steelworkers and other interested parties to forward us information they believe is relevant to our review. We expect to report results in the near future.

## Whistleblower Report: Actuarial Toolkit and the Safeguarding of Personally-Identifiable Information (Project IT-09-67)

PBGC pays monthly retirement benefits, up to a guaranteed maximum, to more than 640,000 retirees in 3,860 pension plans. These benefits are calculated using the Actuarial Calculation Toolkit (ACT). OIG is currently conducting an audit to address concerns raised by a whistleblower dealing with the protection of Personally Identifiable Information (PII) in ACT, including determining whether PBGC has taken steps to ensure that ACT meets FISMA requirements and best practices. We expect to report the results of our assessment in the near future.

## Contract Issues Ignored with Negative Consequences

As OIG has previously reported, the Certification and Accreditation (C&A) process comprises a continuing serious IT weaknesses. The OIG audited the contract of a firm that was procured by PBGC to provide IT systems security services, including the development of an effective C&A process for PBGC systems. The contact value was almost \$3 million, of which the contractor had billed \$1.3 million at the time of our audit. We reported in a prior semiannual report that some contract employees did not have the levels of experience for which PBGC was paying, as specified in the contract. For example, we found that PBGC had paid the contractor for a subject matter expert, based on that individual having at least 8 years total experience with 5 years of specific technical experience. Nevertheless, the individual's resume showed only 2 years total experience and no specialized experience at all.

After the issuance of our report, the Contracting Officer's Technical Representative (COTR) concluded that the contractor was performing successfully, despite the provision

*OIG will address potential vulnerability in system that maintains personally-identifiable information.*

of employees who did not meet the minimum experience requirement. Based on the COTR's undocumented assessment, the PBGC Procurement Department decided to pursue recovery of only 10% of the amount paid for employees who did not have the required experience. Our continuing findings in the area of PBGC's C&A process demonstrate the negative impact of this decision.

## PBGC Incorrectly Reported Taking Corrective Actions on Some Issues Reported by OIG.

In various areas within the Corporation we found that PBGC's reports to the OIG of corrective action were sometimes unfounded.

### PBGC Incorrectly Reported Taking Action in Response to a Security Breach

In our prior Semiannual Report to Congress, we described our investigation of a breach of security incident in which a PBGC contractor failed to protect personally-identifiable information (PII). Unencrypted data on a thumb drive that was left on a commuter train included the names, social security numbers, and birthdates of more than 1300 plan participants in a pension plan, together with the Employer Identification Numbers of many other pension plans. In its response to the PBGC Board and to Congress, PBGC addressed this issue specifically, stating in part "It should be noted that PBGC takes its duty to protect PII very seriously and, as a result of this incident, **PBGC sent PBGC IT security personnel to the contractor's facility to provide additional IT security training to contractor personnel and re-emphasize the importance of following proper security and sensitive information handling procedures**" [emphasis added].

Our subsequent review showed that PBGC did not do what it had reported doing. That is, no trips were taken to the contractor's facility and no additional IT security training was provided. PBGC has acknowledged that neither the additional training nor planned visits to scan contractors' computers had taken place. In response, subsequent to this reporting period, PBGC reported it took the following actions:

- Visiting each actuarial contractor in December 2009 and determining that the original intention to scan computers was not achievable.
- Conducting physical security surveys to which PBGC believes the contractors have responded appropriately.
- Deciding that additional training was not necessary, based on PBGC's belief that the current security training sufficiently covered the above security breach.
- Providing routine annual security training, consisting of power point slides, subsequent to the reporting period (primarily in December 2009 and early

*PBGC is now working  
to address the  
previously identified  
security breach.*

January 2010) and acknowledged by the employees performing PBGC work at all three actuarial contractors.

- Making a commitment to either revise the existing Memorandums of Understanding with actuarial contractors or modify the existing contracts with the actuarial firms to reflect needed changes.

We believe that additional live training is warranted for a contractor whose employees have violated security procedures and compromised PII. For actuarial contractors outside the Washington DC area, including the individual who lost the PII on the commuter train, training consisted of written materials and a certification that the individual read them. That is, the training was not live; no instructor was available to answer questions or emphasize important aspects of the training.

The OIG notes that all federal and contractor employees who work in the Washington DC headquarters were required to attend live training in which security personnel emphasized the information contained in the power point slides. Moreover, PBGC periodically provides live information security training to contractor employees in its field benefit administration offices. We recommend that the actuarial contractors receive periodic live training, rather than written, because of the importance of this subject and so that clarity can be given for any questions that come up. This would also provide consistency with how other remote contractors receive their security training.

### **PBGC Incorrectly Reported Actions Taken in Response to Audit Recommendations.**

During August 2009, OIG became aware of differences between some reported corrective actions and official PBGC documentation. In each instance, PBGC had certified implementation of the audit recommendation and provided documentation that appeared to be excerpts from the PBGC Procurement Department Standard Operating Procedures. The information provided was not marked "draft" nor were there any indications that what was being provided was provisional in any way. Both the implementing manager and the Department Director had certified that "the information on this form and applicable attachments is current, accurate, and complete." However, our review showed that the documents provided to demonstrate corrective action were not actually included in PBGC's procedures. That is, PBGC did not actually take the actions it reported to OIG. We interviewed the Chief Management Officer, the Acting Director of Procurement, the former Director of Procurement and the responsible division chief. None provided an explanation of how the incorrect information came to be reported. Examples of the incorrect reporting include:

- A long-standing recommendation to develop and implement a policy addressing the lack of documentation to support certain unliquidated balances was first reported in FY 2005, in the management letter for the FY 2004 financial statement audit. As reflected in that report, PBGC agreed with the finding and committed to appropriate corrective action. The finding and recommendation were repeated in audit reports issued in FY 2006, FY 2007, FY 2008, and FY 2009. PBGC reported actions taken and supporting documentation that included a 32-page Standard Operating Procedure.

*OIG re-opened audit recommendations after finding PBGC did not actually take corrective actions it reported taking.*

Both the implementing manager and the Department Director certified that the reported corrective actions “were approved, are in place, and are effective.” Based on the materials and certifications provided, OIG agreed to closure of this recommendation. However, our subsequent review showed that the written procedures provided to OIG were not actually incorporated into the Standard Operating Procedure. As a result, we reopened the recommendation.

- Our FY 2005 audit of contract monitoring activities included recommendations designed to improve contract monitoring functions and procedures. Among other issues, the recommendations addressed necessary improvements in status reporting, the need to document the acceptance of contract deliverables, and the need to establish written operating procedures for contract monitoring duties. In response to six of these recommendations, PBGC provided documents and certified that the corrective actions “were approved, are in place, and are effective.” During the prior semiannual period, we reviewed the documents provided and concluded that the six recommendations and the audit could be closed. However, our further review showed that the procedures provided to OIG had not actually been included as part of PBGC’s Standard Operating Procedures. As a result, we reopened the six recommendations and the associated audit.
- During the prior semiannual period, OIG had agreed to closure of an FY 2005 audit of procurement activities, including recommendations that PBGC establish and document procedures for the retention of advanced planning process documentation and for PBGC’s procurement activities. Our review of PBGC’s Standard Operating Procedures showed that much of the information reported to OIG was not actually included in the document, despite certification by PBGC managers. As a result, the recommendations and the associated audit were reopened.
- OIG had agreed to closure of an FY 2006 audit of PBGC’s procurement cycle and five recommendations, based on documentation provided and certifications made by PBGC management. However, our review of PBGC’s Standard Operating Procedures showed the procedures provided to OIG were not actually included, notwithstanding the certification by PBGC management. Therefore, we reopened the recommendations and the associated audit.

While these examples relate to the activities of PBGC’s procurement department, our ongoing audit work has disclosed similar examples in other divisions of the Corporation. For example, PBGC reported making updates to 15 common security controls in its IT Information Assurance Handbook. However, our review disclosed that the Handbook had not been updated as reported, and the controls had not been implemented.

It is important for PBGC management to ensure that corrective actions reported to OIG, to the Board, and to Congress have actually been implemented as reported. For the recommendations and audits that have been reopened based on PBGC’s failure to take action as reported, PBGC should provide OIG with details of their current plans to address the underlying findings and their proposed corrective actions.

*PBGC management  
should ensure  
proper reporting of  
corrective actions.*

## 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 and assistance 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 10 audit reports for which management decisions are pending (see Appendix, page 26-27).
- There were no significantly revised management decisions.
- While the Inspector General did not agree with certain management decisions, in some instances OIG deferred to the contracting officer's decision and agreed to close the audit recommendation, based on PBGC's receipt of settlement payments and the difficulty inherent in any subsequent collection. For recommendations that were closed, notwithstanding the Inspector General's disagreement, OIG provided detailed written explanations and identified actions to be taken to prevent recurrence of the deficiencies in the future.

*OIG closed some recommendations despite disagreement with PBGC actions.*

# 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 the independent review of PBGC-proposed changes to laws and regulations. There were no significant PBGC statutory proposals this period.

### Regulations

PBGC continues in efforts 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. During the period ending September 30, 2009, PBGC drafted proposed debt collection regulations to revise its regulation to conform to various legal requirements for collection of non-tax debts owed to PBGC and strengthen its debt collection program by adding salary offset, administrative wage garnishment and other provisions. We reviewed and provided written comments to PBGC.

## Congress Remains Concerned About Inspector General Independence

The OIG continued to communicate about Inspector General independence through meetings with staff persons of multiple congressional committees and individual Members. H.R. 855, a bill which would change the appointment process of the Inspectors General at five independent federal entities from agency-head appointed to Presidentially-appointed and Senate-confirmed, passed the House on June 8, 2009. A similar bill, S. 1354, was thereafter introduced in the Senate and referred to the Homeland Security and Governmental Affairs Committee (HSGAC). PBGC was one of the five agencies named in the bill, along with the Board of Governors of the Federal Reserve, Commodities Futures Trading Commission, National Credit Union Administration, and the Securities and Exchange Commission. These five Inspectors General submitted joint letters to the Chairman and the Ranking Member of the HSGAC expressing their concerns that their independence would not be enhanced by the bills but, to the contrary, might be diminished.

We continue to meet with Congressional staff to develop proposals to positively impact Inspector General independence.

*We continue to work with Congress to identify ways of enhancing Inspector General independence.*

*Investigative  
system of records  
was published in  
Federal Register.*

## Other Activities

### Privacy Act System of Records Established for Investigative Files

With the expert assistance and execution of PBGC's Office of the General Counsel and the Legislative and Regulatory Department, the OIG developed a system of records, published required notifications in the Federal Register for public comment, and issued a final rule on June 8, 2009 (74 Fed. Reg. 27980). The OIG investigative program had outgrown its filing system by subject matter and was moving to an electronic records system in which records could be retrieved by names and other personally-identifiable information (PII). In order to maintain files that are retrieved by PII, the Privacy Act requires agencies to announce such a system of records and disclose whether those records are exempt from provisions of the Privacy Act. In that Act, information gathered to carry out law enforcement, such as the OIG's mission to investigate criminal, civil and administrative matters, is generally protected from disclosure.

### External and Internal Professional Activities

Various staff members participated in external and internal professional activities. Examples include:

- The IG participates in the new consolidated Council of Inspectors General for Integrity and Efficiency (CIGIE) that promotes collaboration on integrity, economy, and efficiency issues that transcend individual agencies. Ms. Batts serves as the co-chair of the CIGIE Information Technology Committee and as a member of the Audit Committee. She also serves as the CIGIE delegate to the Chief Financial Officer's Council. In the Federal Financial Regulatory Inspectors General group, she joins with other IGs to discuss common financial concerns and the work each is doing.
- The Assistant IG for Audits serves on the Accounting and Audit Policy Committee (AAPC) which is a permanent committee established by the Federal Accounting Standards Advisory Board. Federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable. The AAPC issues technical releases related to existing Federal accounting standards. AAPC's technical releases are a form of authoritative guidance for generally accepted accounting principles for Federal entities.
- The IG and the Assistant IG for Audit participated in a roundtable at the AAPC to provide views on the use of generally accepted accounting principles (GAAP) as used by the public sector.
- The Assistant IG for Investigations continues to serve as a non-voting member of PBGC's Internal Control Committee, providing insight gained through his experience as a criminal investigator to those responsible for oversight and accountability of PBGC internal controls. Effective control systems may detect fraud or deliberate non-compliance with policies, regulations, or laws.
- The Special-Agent-in-Charge participates in the National Procurement Fraud Task Force sponsored by the U.S. Department of Justice.
- The IG and the Deputy IG are mentoring non-OIG staff as part of PBGC's intentional mentoring programs.

# Appendix

## CROSS-REFERENCE TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

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

Inspector General Act Reference	Reporting Requirements	Page
Section 4(a)(2)	Review of legislation and regulations.	21
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	5-20
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	5-20
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	28-29
Section 5(a)(4)	Matters referred to prosecutorial authorities.	12, 24
Section 5(a)(5)	Summary of instances in which information was refused.	20
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.	25
Section 5(a)(7)	Summary of each particularly significant report.	5-20
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	25
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	25
Section 5(a)(10)	Summary of each audit report issued before this reporting period for which no management decision was made by end of the reporting period.	26-27
Section 5(a)(11)	Significant revised management decisions.	20
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	20

**SUMMARY OF AUDIT AND INVESTIGATIVE ACTIVITIES**  
**For the Six-Month Period Ending September 30, 2009**

**Audit Reports Issued**

Number of Reports	3
Number of Recommendations	19

**Management Decisions**

Open Recommendations Beginning of Period	131
Opened this Period	19
Re-Opened this Period	15
Closed This Period	22
Open Recommendations End of Period	143
Reports with Open Recommendations End of Period	36

**Investigations**

Pending Beginning of Period	17
Opened	15
Closed	17
Pending End of Period	15

**Complaints<sup>1</sup>**

Pending Beginning of Period	20
Opened	45
Closed	58
Pending End of Period	7

**Financial Recoveries<sup>2</sup>**

Theft of Funds Recovered	\$10,946
Court Ordered Fines, Penalties, and Restitution	\$0
U.S. Government Property Recovered	\$0

**Criminal Actions<sup>2</sup>**

Arrests	1
Indictments	0
Convictions	0

**Administrative Actions<sup>2</sup>**

	0
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**Referrals**

For Prosecution:

Department of Justice	6
Accepted	4
Various States' Attorney Offices	1
Declined	1

For Other Action:

PBGC Management for Corrective Action	1
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<sup>1</sup>Complaints include allegations received through the hotline operation and issues resulting from proactive investigative efforts.

<sup>2</sup>Results reported for Financial Recoveries, Criminal, and Administrative Actions include both open and closed cases.

## RESULTS OF REPORTS ISSUED

For the Six-Month Period Ending September 30, 2009

	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.	8	\$1,911,808	\$4,241	\$0
B. Which were issued during the reporting period.	3			
Former Director's Involvement in Contracting for Investment Services Blurs Roles and Raises Fairness Issues, 2009-5/PA-08-63-1 (5/15/09)		\$0	\$0	\$0
Evaluation of PBGC's Activities With Respect to its Securities Lending Program, 2009-6/FA-08-51 (7/9/09)		\$0	\$0	\$0
Zimmerman Associates, Inc Agreed-Upon Procedures to Verify Contract Personnel Qualifications, 2009-7/CA-08-53 (9/25/09)		\$0	\$0	\$0
Previously Closed and Re-opened during the period	3			
Audit of Procurement Activities Related to Award of Morneau Sobeco Contracts, 2005-18/CA-0008-1 (9/29/05)		\$0	\$0	\$0
Audit of Costs Claimed by Morneau Sobeco, 2005-19/CA-0008-2 (9/25/05)				
Procurement Cycle Performance Audit, 2006-9/CA-0010 (3/16/06)				
<b>Total</b>	<b>6</b>			
Subtotal (Add A. & B.)	14	\$1,911,808	\$4,241	\$0
C. For which a management decision was made during the reporting period.	4	\$1,224,848	\$4,241	\$0
(i) dollar value of disallowed costs		\$76,852	\$0	\$0
(ii) dollar value of costs not disallowed		\$1,147,996	\$4,241	\$0
D. For which no management decision had been made by the end of the reporting period.	10	\$686,960	\$0	\$0
E. For which no management decision was made within six months of issuance.	10	\$686,960	\$0	\$0

<sup>1</sup> Unsupported costs are a subset of questioned costs.

SUMMARY OF REPORTS OLDER THAN SIX MONTHS FOR WHICH  
MANAGEMENT DECISION HAS NOT BEEN ACHIEVED

Report and Summary	Reason For No Management Decision	Anticipated Management Decision
<p><b>FY 2004 Financial Statement Management Letter, 2005-10/ 23182-6 (3/21/05)</b></p> <p>Establish and document detailed policies and procedures regarding deobligation of funds.</p>	<p>This report was re-opened on August 21, 2009, based on OIG's discovery that PBGC had incorrectly reported the establishment of Standard Operating Procedures that implemented OIG recommendations.</p>	<p>2/28/2010</p>
<p><b>Procurement Activities Related to Award of Morneau Sobeco Contracts, 2005-18/CA-0008-1 (9/29/05)</b></p> <p>Establish and document detailed policies and procedures for procurement activities, including duties of Contracting Officer, Contract Specialist and Competition Advocate..</p>	<p>This report was re-opened on August 21, 2009, based on OIG's discovery that PBGC had incorrectly reported the establishment of Standard Operating Procedures that implemented OIG recommendations.</p>	<p>2/28/2010</p>
<p><b>Costs Claimed by Morneau Sobeco, 2005-19/CA-0008-2 (9/29/05)</b></p> <p>COTR should document actions, including invoice review and acceptance of deliverables, and ensure contractor complies with contract requirements.</p>	<p>This report was re-opened on August 21, 2009, based on OIG's discovery that PBGC had incorrectly reported the establishment of Standard Operating Procedures that implemented OIG recommendations.</p>	<p>2/28/2010</p>
<p><b>Procurement Cycle Performance Audit, 2006-9/CA-0010 (3/16/06)</b></p> <p>Establish and document detailed policies and procedures of procurement activities.</p>	<p>This report was re-opened on August 21, 2009, based on OIG's discovery that PBGC had incorrectly reported the establishment of Standard Operating Procedures that implemented OIG recommendations.</p>	<p>2/28/2010</p>
<p><b>Examination of Contract Termination Proposal, 2006-14/CA-0013 (9/29/06)</b></p> <p>Questioned Costs of \$197,035 because the contractor did not effectively manage its employees and allowed idle time to be billed as a direct expense.</p>	<p>Management continues to review this report.</p>	<p>2/28/2010</p>

SUMMARY OF REPORTS OLDER THAN SIX MONTHS FOR WHICH  
MANAGEMENT DECISION HAS NOT BEEN ACHIEVED

Report and Summary	Reason For No Management Decision	Anticipated Management Decision
<p><b>Incurring Cost Audit, 2006-16/CA-0013 (9/27/06)</b></p> <p>Questioned Costs of \$146,628 for unallowable costs associated with the use of the actual indirect rates instead of the forward pricing indirect rates; unallowable facility costs; and unsupported purchased labor costs.</p>	<p>Management continues to review this report.</p>	<p>2/28/2010</p>
<p><b>Incurring Cost Audit, 2007-13/CA-0038-1 (9/27/07)</b> and <b>Incurring Cost Audit, 2007-14/CA-0038-2 (9/27/07)</b></p> <p>Implementation of corrective actions with contractor needed to prevent unsupported and erroneous documentation for labor hour billings; erroneous and unapproved billings; and unverified education and experience for contractor employees.</p>	<p>Management continues to review these reports involving the same contractor.</p>	<p>6/30/2010</p>
<p><b>Incurring Cost Audit, 2007-15/CA-0039 (9/27/07)</b></p> <p>Questioned Costs of \$245,716 related to unsupported costs; erroneous and unapproved billings; and unverified education and experience for contractor employees.</p>	<p>Management continues to review this report.</p>	<p>2/28/2010</p>
<p><b>Incurring Cost Audit, 2008-09/CA-0054 (9/30/2008)</b></p> <p>Questioned Costs of \$97,581 for unallowable costs associated with the use of unaudited indirect cost rates.</p>	<p>Management decision is pending as it awaits DCAA's completion of its incurred cost audit and settlement of indirect cost rates.</p>	<p>3/30/2010</p>

**PREVIOUSLY REPORTED SIGNIFICANT RECOMMENDATIONS  
FOR WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED**

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
<p><b>96-4/23093-2</b> Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 1995 Financial Statements 03/13/1996 and <b>AUD-2008-2/ FA-09-0034-2</b> Limited Disclosure Report on Internal Controls - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007</p>	1	<p><b>Significant Deficiency:</b> Integrating Financial Management Systems</p>	<p>PBGC needs to complete the integration of its financial management systems.</p>
<p><b>2003-3/23168-2</b> Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2002 - 2001 Financial Statements 01/30/2003 and <b>AUD-2008-2/ FA-09-0034-2</b> Limited Disclosure Report on Internal Controls - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007</p>	2	<p><b>Significant Deficiency:</b> Entity-Wide Information Security Program Planning &amp; Management</p>	<p>PBGC needs to complete its efforts to fully implement and enforce an effective information security program.</p>
<p><b>2003-10/23177-2</b> Review of PBGC's Premium Accounting System 10/10/2003</p>	3	<p>Control weaknesses undermine the quality and integrity of reported premium revenues.</p>	<p>PBGC needs to ensure that its automated system produces accurate and verifiable premium accounting data.</p>
<p><b>2008-1/FA-0034-1</b> Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2007 - 2006 Financial Statements 11/15/2007 and <b>AUD-2008-2/ FA-09-0034-2</b> Limited Disclosure Report on Internal Controls - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007</p>	11	<p><b>Significant Deficiency:</b> Access Controls</p>	<p>PBGC needs to mitigate the systemic issues related to information access controls.</p>

**PREVIOUSLY REPORTED SIGNIFICANT RECOMMENDATIONS  
FOR WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED**

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
<p><b>AUD-2009-01/FA-08-49-1</b>            Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2008 and 2007 Financial Statements            11/13/2008            and</p>	5	<p><b>Significant Deficiency:</b>            Entity-Wide Information Security Program &amp; Planning Management</p>	<p>PBGC needs to complete the design, implementation and testing of security controls, implement an effective certification and review process, and correct identified access control vulnerabilities.</p>
<p><b>AUD-2009-02/FA-08-49-2</b>            Limited Disclosure Report on Internal Controls – PBGC's FY 2008 and 2007 Financial Statements            11/13/09</p>			

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