




Office of Inspector General
Pension Benefit Guaranty Corporation

September 27, 2019

TO: Robert Scherer
Chief Information Officer

FROM: Brooke Holmes 
Assistant Inspector General for Audits, Evaluations, and Inspections

SUBJECT: Final Evaluation Memorandum Report – PBGC’s Property Management Program
(Report Number EVAL-2019-14/Project Number PA-19-132)

We conducted this evaluation to assess the controls PBGC established to mitigate risks associated with PBGC’s property management program. We reviewed the processes for receiving, disbursing, collecting, and retiring property. This memorandum report provides the results of our evaluation. It contains public information and will be posted in its entirety on our website and provided to the Board and Congress in accordance with the Inspector General Act.

Summary

We determined that PBGC could reduce the risk of property loss or theft by strengthening its internal controls. PBGC does not ensure that bar-coded inventory labels are consistently affixed to newly received property within a reasonable time and does not ensure that accountable property is entered into the property management system in a timely manner after property is received. PBGC does not require any follow-up to be performed to locate accountable property “not found” during the annual inventory process, and such property is simply written off after two or three years. Such property includes assets such as flash drives that could contain personally identifiable information (PII), and loss or theft of such property in particular could result in serious reputational harm to the Corporation.

Background

PBGC protects the retirement income of nearly 37 million American workers in private sector defined benefit pension plans. PBGC was created by the Employee Retirement Income Security Act of 1974 to encourage the continuation and maintenance of private sector defined benefit pension plans, provide timely and uninterrupted payment of pension benefits, and keep

pension insurance premiums at a minimum. PBGC is not funded by general tax revenues. PBGC collects insurance premiums from employers that sponsor insured pension plans, earns money from investments, and receives funds from pension plans it takes over. Because of its important mission and operating model, one of the three strategic goals articulated in PBGC's Strategic Plan is to "maintain high standards of stewardship and accountability."

Accountable Property

Executive agencies are required by federal statute to maintain adequate inventory controls and accountability systems for property under the agency's control. In addition, Office of Management and Budget (OMB) Circular A-130, *Managing Information as a Strategic Resource*, requires agencies to maintain an accurate inventory of Information Technology (IT) resources and information systems.

PBGC Directive GA-10-3, *Property Management*, dated March 9, 2009, defines accountable property as:

Government-owned furniture and equipment that has an estimated service life of two or more years that is:

- (1) capitalized and/or
- (2) cost more than \$500 to purchase. (Note: a department may include less expensive items (assets) that can be used for personal use or are frequently missing, lost, or stolen.)

Examples of these assets include computers, laptops, printers, cell phones, servers, and flash drives.

Updating PBGC Policy GA 10-3, Property Management

Over the last 10 years, PBGC has shifted property management operations to focus on IT-related equipment such as iPhones, laptops, etc. Due to this transition, the property management responsibility has, in effect, moved from PBGC's former Facilities and Services Department to the IT Infrastructure Operations Department (ITIOD), a department within PBGC's Office of Information Technology (OIT). PBGC is in the process of updating directive GA 10-3 to reflect these changes.

Information Technology Infrastructure Operations Department's Role

PBGC Directive GA 10-3 establishes OIT's role in property management:

1. Establish policy and procedures necessary for the physical and operational control of IT assets as outlined in its asset management handbook,
2. Maintain the inventory of accountable IT equipment and software,
3. Assign and apply a PBGC bar-coded inventory number to all accountable IT equipment,
4. Conduct annual agency-wide inventory and provide the Facilities and Services Department a copy, and
5. Manage the disposal of IT assets.

ITIOD is comprised of approximately 40 federal employees and approximately 150 contractors. ITIOD operates PBGC's property management program under a cost-plus-award-fee contract for IT support services.

Since 2015, the Office of Inspector General has identified contractor oversight as a top management challenge.

PBGC's Annual Inventory Process

To perform the annual inventory, the contractor completes a walkthrough to verify that assets are either assigned to the correct personnel or stored properly in the warehouse. If the contractor cannot physically locate an accountable property asset, it is recorded as "not found" in the property management system and it remains in that category until the next annual physical inventory. If an asset is not found within the second or third year, the asset is then identified as missing and is removed from the system.

Objective

Our objective was to assess to what extent PBGC has established key controls to mitigate risks associated with PBGC's property management program.

Details

Property Management Internal Controls Could Be Generally Improved

In addition to OMB Circular A-130, which requires agencies to maintain an inventory of IT resources and information systems, OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (July 15, 2016) provides guidance on internal control to include the safeguarding of all assets. Management should design an internal control system to provide reasonable assurance regarding the prevention or prompt detection and correction of unauthorized use or disposition of an entity's assets.

GAO's *Standards for Internal Control in the Federal Government* (also known as the Green Book) (September 2014) requires management to design control activities to achieve objectives and respond to risks. These control activities include policies, procedures, techniques, and mechanisms that enforce management's directives to achieve an objective and address related risks. Green Book, Principle 12, requires management to periodically review the policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. We found PBGC's 10-year-old controlling directive, GA 10-03, to be outdated and in need of more specific requirements to ensure the sufficient safeguarding of assets.

Defined Requirements Needed for Logging New Assets into the Property Management System

According to the ITIOD property management officer, once assets are received at the loading dock, the contractor conducts a physical count and inspects for visible damage. The contractor then moves the assets to a secured room where the assets are stored until the contractor bar-codes the assets and enters data into PBGC's property management system. According to one of PBGC's property managers, the time a new asset is stored without being properly inventoried varies and there is no maximum time the contractor can take to bar-code an asset after delivery. In effect, PBGC officials responsible for contract oversight allow the contractors to decide when they have time to perform the tasks. As a result, assets may be stored without a bar-coded inventory label for a long period of time.

Under the Green Book, management's internal control activities should include activities to ensure that all transactions are completely, accurately, and timely recorded.

We evaluated PBGC's procedures and found there are no defined timeframes for affixing bar-coded inventory labels to newly received property and logging accountable property into PBGC's property management system. Neither PBGC's directive GA 10-03 nor the contract

performance work statement specify the length of time the contractor may take to inventory newly received property. We reviewed the draft PBGC Asset Management Functional Guide and found that it also lacks any time standards.

This serious gap in internal control increases the risk of loss or theft. In fact, in FY 2017 our office was notified that several iPhones were lost or stolen from the PBGC loading dock sometime after delivery and before the items were bar-coded and entered into the property management system. Our investigation was hindered by this control failure.

A specifically defined time requirement would significantly enhance management's ability to sufficiently safeguard assets.

Requirements Needed to Follow-up on Assets Not Located During the Annual Inventory

PBGC is required by statute and OMB circular to maintain an adequate inventory controls and accountability system for property under its control. As part of this system, PBGC conducts an annual inventory performed exclusively by contractors.

In FY 2018, the contractor that performs the property management function for PBGC obtained the services of a subcontractor to conduct the annual inventory. The contract for the services requires the contractor to "conduct random and periodic inventories to verify accuracy and accountability of asset management procedures and recording in the asset system." The statement of work required the subcontractor to perform an annual physical inventory of PBGC accountable property in all four PBGC office locations.

In FY 2018, the subcontractors located 6,458 of 6,650 or 97 percent of accountable assets. Compared to prior years, the number of unaccounted assets increased by two percent (Figure 1). PBGC attributed the increased quantity of assets not found to the subcontractor's lack of familiarity with PBGC.

Of the 192 assets not located, 101 assets were assigned to users, 50 were assigned to the warehouse, 37 were assigned to a specific location within PBGC's buildings, and 4 were in the process of being decommissioned. The 192 assets were valued at \$104,874 and included flash drives, network hardware, cell phones, and computers. PBGC provided that 37 of the assets not accounted for also were not located in the prior year's inventory; therefore, shifting the assets to PBGC's missing assets list and pending removal from the inventory system.

Figure 1: Results of PBGC Annual Inventory for FYs 2016, 2017, and 2018

Fiscal Year	Assets Not Found During Inventory	Number of Assets Inventoried	Percentage of Not Found Assets
2018	192	6,458	3.0
2017	138	13,509	1.0
2016	160	13,320	1.0

Source: OIG Analysis of Inventory Data Provide by PBGC.

Of the 192 assets not located in FY 2018, 127 may be considered high-risk due to high theft, sensitive information, or high value. A-123 states “management should design an internal control system to provide reasonable assurance regarding the prevention or prompt detection and correction of unauthorized use or disposition of an entity’s assets.” PBGC policy permits accounts to be erased remotely if the accounts are dormant for various periods, protecting some assets. However, the policy is related to PBGC-user accounts and not to specific assets. For example, the 21 flash drives moved to “missing” as a result of the FY 2018 inventory could contain PII or other sensitive information which could be vulnerable for up to two years. Additionally, if “not located or missing” assets are being inappropriately accessed, the dormancy policy would not be activated. Allowing high-risk assets, all of which were assigned to people, the warehouse, or a specific location the prior year to remain accessible and in the inventory system increases the risk of inappropriate access to PII or access to PBGC systems. It also increases reputational risk if a compromise did occur.

We found that during the inventory process, when property is not located, PBGC does not require the contractor to perform any additional follow-up on those assets. The contract for the inventory services requires the contractor to “conduct random and periodic inventories to verify accuracy and accountability of asset management procedures and recording in the asset system,” yet PBGC does not request the contractor to conduct any follow-up to locate the missing assets. Simply writing off missing property with any follow-up is not consistent with management’s responsibilities to design and maintain internal control to ensure the appropriate safeguarding of assets.

Recommendations

We recommend that the Office of Information Technology:

- 1. Update procedures to require new property bar coding within a specified timeframe. (OIT-173)**

PBGC Comments and OIG Response

Resolved. PBGC agreed with the recommendation and plans to update their standard operating procedure to incorporate steps needed to require that new property bar coding be accomplished within a specified time. PBGC plans to accomplish this by July 31, 2020.

Closure of this recommendation will occur when PBGC provides evidence that the standard operating procedure was updated to specify a time period by which new property is to be bar coded.

- 2. Perform a risk assessment on assets not located during the annual inventory and follow-up on assets that are deemed high risk. (OIT-174)**

PBGC Comments and OIG Response

Resolved. PBGC agreed with the recommendation and plans to complete by November 30, 2020.

Closure of this recommendation will occur when PBGC provides evidence that it performed a risk assessment of assets not located during the annual inventory and that it followed-up with locating those assets deemed as high risk.

cc: Judith Starr, General Counsel
Frank Pace, Director, Corporate Controls and Reviews Department
Joshua Kossoy, Director, ITIOD
Latrece Wade, Risk Management Officer
Department of Labor Board staff
Department of the Treasury Board staff
Department of Commerce Board staff

Appendix I: Objective, Scope and Methodology

Objective

Our objective was to assess to what extent PBGC has established key controls to mitigate risks associated with PBGC's property management program.

Scope

To answer our objective, we reviewed the processes for receiving, disbursing, collecting, and retiring property. In addition, we reviewed the physical inventory count performed in FY 2018. We performed fieldwork at PBGC Headquarters in Washington, D.C. from December 2018 through August 2019.

Methodology

To answer our objective, we interviewed personnel responsible for management, oversight, and execution of PBGC's property management program to obtain an understanding of PBGC's policies and procedures for purchasing, receiving, disbursing, collecting and retiring assets. We then analyzed the procedures to determine the quality of the established procedures. Additionally, we performed a walkthrough of the disposal of assets to determine whether all parties involved followed protocol. Finally, we reviewed the FY 2018 Annual Asset Inventory Report to determine the category and quantity of missing assets relative to sensitive information.

Standards Followed During the Evaluation


We conducted the review under the authority of the Inspector General Act of 1978, as amended, and in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

Appendix II: Management Response



September 16, 2019

To: Brooke Holmes
Assistant Inspector General for Audits (OIG)

From: Robert Scherer 
Chief Information Officer

Subject: Response to OIG's Draft Report on PBGC's Property Management Program

Thank you for the opportunity to comment on the Office of Inspector General (OIG's) draft report, dated September 5, 2019, relating to PBGC's Property Management Program. Your office's work on this is sincerely appreciated.

Management is in agreement with the report's findings and recommendations. In the attachment to this report, you will find our specific responses to each recommendation included in the report, as well as our planned corrective actions and scheduled completion dates. Addressing these recommendations in a timely manner is an important priority for PBGC.

cc: Frank Pace, Director, Corporate Controls and Reviews Department

ATTACHMENT

Our comments on the specific recommendations in the draft report are as follows:

1. Update procedures to require new property bar coding within a specified timeframe.

PBGC Response: ITIOD agrees with this recommendation and will update the Asset Management SOP to incorporate the steps needed to require new property bar coding within a specified timeframe.

Scheduled Completion Date: July 31, 2020

2. Perform a risk assessment on assets not located during the annual inventory and follow-up on assets that are deemed high risk.

PBGC Response: ITIOD agrees with this recommendation. We will continue efforts already underway to improve asset management, including the inventory process.

Scheduled Completion Date: November 30, 2020

Appendix III: Acronyms

FY	Fiscal Year
PBGC	Pension Benefit Guaranty Corporation
PII	Personally Identifiable Information
OIG	Office of the Inspector General
OMB	Office of Management and Budget
U.S. Code	United States Code
IT	Information Technology
ITIOD	IT Infrastructure Operations Department
USDA	United States Department of Agriculture

Appendix IV: PBGC OIG Contact and Staff Acknowledgement

PBGC OIG Contact	Brooke Holmes, (202) 326-4000 extension 3790 or holmes.brooke@pbgc.gov.
Staff Acknowledgement	In addition to the contact named above, John Seger, Audit Manager; Tiara Jackson, Auditor-In-Charge; and Tiara Grotte, Auditor, made key contributions to this report.

Appendix IV: Feedback

Please send your comments, suggestions, and feedback to OIGFeedback@pbgc.gov and include your name, contact information, and the report number. You may also mail comments to us:

Office of Inspector General
Pension Benefit Guaranty Corporation
1200 K Street NW, Suite 480
Washington, DC 20005

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 326-4030.