



***Pension Benefit Guaranty Corporation
Office of Inspector General
SEMIANNUAL REPORT TO CONGRESS
APRIL 1, 2007 - SEPTEMBER 30, 2007***

Mission

The Office of Inspector General is an independent and objective voice that helps Congress, the Board of Directors and PBGC protect the pension benefits of American workers by promoting positive change, accountability and integrity.

Vision

We will be recognized by our stakeholders as the primary source of objective & independent information for their key decisions.

Values

Respect

We will treat others as we would like them to treat us.

Integrity

We will be a role model of ethical behavior.

Excellence

We will constantly innovate & improve the quality and value of our work.



Pension Benefit Guaranty Corporation

Office of Inspector General

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

October 31, 2007

The Board of Directors
Pension Benefit Guaranty Corporation

On behalf of the Office of Inspector General for the Pension Benefit Guaranty Corporation, I am pleased to submit this Semiannual Report to the U.S. Congress for the 6-month period ending September 30, 2007. It details our efforts to improve the economy and efficiency of PBGC operations, our efforts to prevent fraud, waste and misconduct, and fulfills our reporting requirements under the Inspector General Act.

Significant leadership change occurred during this period at PBGC. In June, Charles E.F. Millard was appointed as the first presidentially-appointed Interim Director; he is awaiting Senate confirmation. We've met frequently with Mr. Millard to discuss PBGC's management challenges, in particular the need to correct internal control weaknesses identified in the financial statement audit. He has demonstrated a strong commitment to good governance and supporting PBGC leaders as they address PBGC's challenges. PBGC also selected a new Chief Information Officer, Patsy Garnett. From the first, we have established a strong collaborative relationship with Ms. Garnett, who is committed to implementing long-term information technology solutions and ensuring that all PBGC leaders understand their part.

A more personal change for the OIG occurred when the Inspector General Robert Emmons announced in July that he would retire on October 2. In his almost 5-year tenure as Inspector General, he transformed the office into a stakeholder-focused organization. Mr. Emmons led this change by example, constantly engaging PBGC decision-makers in conversations about their challenges and work the OIG might do to address them. He challenged staff to recognize that all are leaders and must work at developing effective relationships. He worked tirelessly on behalf of the IG community to define core competencies and design a first-class training academy for management, auditors and investigators. Mr. Emmons' legacy of building effective relationships through continual communication is now part of the OIG culture. Thanks, Bob!

PBGC's major management challenges are: Governance, Stewardship, PBGC Business Model, Information Technology, and Procurement and Contracting. As a whole, we focus our audits, investigations, management advisories and consultations on these significant issues the Board and PBGC are facing. And, we report all of our work under these challenge areas.

Governance – internal at PBGC and external with the Board – was addressed in several reports issued by the Government Accountability Office, in which we consulted. Those reports echoed observations we made in prior reports. In the Stewardship challenge area, significant resources were devoted to

consulting about and overseeing the audit of PBGC's FY2007 financial statements. Our office continues to work closely with management in addressing conditions reported in previous financial statement audits. The application of a new financial audit standard that lowers the threshold for internal control reporting led to significant discussions between the OIG, auditors and management. We commend PBGC leaders for focusing attention on resolving reported internal control issues. This commitment resulted in departments working together to correct identified contingency planning issues, which led to closing of a reportable condition. To deter fraudulent claims, protect the pension benefits of participants and safeguard PBGC assets, the investigators aggressively pursued individuals who fraudulently obtained participants' pension benefits.

In the PBGC Business Model challenge, we continued our review of the multiemployer program by initiating the first in a series of audits of terminated but not yet insolvent multiemployer pension plans. We conducted audits and investigations to address information technology concerns, including reporting progress to OMB on information security and working with management to recover stolen laptops. In contracting and procurement, we issued four reports that questioned more than \$1 million in costs and made recommendations to improve the Corporation's ability to verify the reasonableness and supportability of contractor billings.

I thank our staff, who exemplify daily our values of respect, excellence and integrity as they accomplish their work. I appreciate the spirit of cooperation with the Board and PBGC and openness to discuss their challenges and possible solutions. We are proud to be part of an organization that protects the pensions of over 44 million Americans, and will constantly strive to keep its programs efficient, effective, and free from fraud, waste and abuse.



Deborah Stover-Springer
Acting 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, 2007 through September 30, 2007. When accomplishing audit and investigative work, we ensure that it accords with our mission to be an independent and objective voice for Congress, the Board of Directors, and PBGC. We want to focus our work on the challenges facing PBGC and to be the primary source of timely and objective information for the organization.

We have designated five areas as PBGC's major management challenges: Governance, Stewardship, PBGC's Business Model, Information Technology, and Procurement and Contracting. The Business Model challenge relates to how PBGC programs can adapt to a changing environment to provide superior service and generate cost-savings. We plan audit and proactive investigative work to address these challenges. Significant audit and investigative activity this period includes:

- **Governance**— PBGC's new Interim Director has shown a commitment to good governance, supporting PBGC leaders' correction of identified financial statement audit weaknesses and frankly discussing difficult ethics issues. The Board of Director's oversight role continued as a focus area; revised By-Laws are before the Board for approval (see pages 5-7).
- **Stewardship**— The financial statement audit was a significant activity and the new internal control reporting standard was briefed to management and the Advisory Committee. Investigations aggressively pursued conviction of and recovery from individuals who fraudulently obtained pension benefits and determined an employee submitted false documents to receive childcare subsidies (see pages 7-12).
- **PBGC Business Model**— We are auditing terminated but not yet insolvent multiemployer plans for protection of plan assets and potential PBGC savings of future financial assistance payments. PBGC is implementing recommendations from our prior audit to close-out certain insolvent multiemployer plans (see page 12-15).
- **Information Technology** — Our post-implementation review and performance audit of a significant actuarial valuation system recommended that PBGC perform a cost-benefit analysis before expending more funds; PBGC's work in emergency preparedness resulted in resolving a reportable condition; and our FISMA report noted improvement. Investigators recovered three missing laptops (see pages 15-18).
- **Procurement and Contracting**— Four incurred costs audits questioned more than \$1 million in billed costs, and a report to the new Procurement Director cumulated the procurement audits since 2000 to show trends in identified weaknesses. Investigations included a contractor employee who falsified time records, and possible disclosure of procurement sensitive information (see pages 19-22).

Among the OIG's other activities, we completed our outreach to PBGC's Field Benefit Administration offices to educate about OIG's mission and fraud awareness, conducted an investigative peer review, participated in IG community initiatives, and made significant progress in our strategic initiatives to implement an electronic workpaper system for audit and develop a new performance management system.

*PBGC's Interim
Director has shown a
commitment to good
corporate governance.*

Introduction

The Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended (29 U.S.C. §§ 1301-1461), as a self-financing, wholly owned federal government Corporation to administer the pension insurance program. ERISA requires that PBGC: (1) encourage the continuation and maintenance of voluntary private pension plans, (2) provide for the timely and uninterrupted payment of pension benefits to participants and beneficiaries, and (3) maintain premiums at the lowest level consistent with carrying out PBGC's obligations.

For about 44 million Americans, PBGC provides assurance that their retirement benefits will be paid, up to a statutory limit. PBGC protects the pensions of participants in certain defined benefit pension plans (i.e., plans that promise to pay definitely determinable retirement benefits). Such defined benefit pension plans may be sponsored individually or jointly by employers and unions. PBGC is now responsible for the pensions of about 1.3 million people; it pays about \$360 million a month to about 600,000 current retirees.

During FY2007, PBGC managed over \$68 billion in assets and paid approximately \$4.3 billion in benefit payments to retirees. Despite significant deficits in both the single-employer and multiemployer programs, the Corporation has sufficient liquidity to meet its obligations for a number of years. However, neither program at present has the resources to satisfy all of the benefit obligations already incurred, much less future obligations likely to be assumed.

*PBGC has more than
\$68 billion in assets.*

The Office of Inspector General

Our Office of Inspector General (OIG) was created under the 1988 amendments to the Inspector General Act of 1978. Our mission is to be an independent and objective voice that helps the Congress, the Board of Directors, and PBGC protect the pension benefits of American workers by promoting positive change, accountability, and integrity. With twenty-two staff, the OIG conducts agency audits, inspections and investigations; participates in agency-wide working groups; and provides consultations to provide our stakeholders with information they need to make decisions.

To provide value, we focus our work on the challenges that PBGC is facing, whether we are issuing audits, evaluations and investigative reports, or consulting with PBGC and participating on various teams and in working groups. We are committed to our values of respect, excellence, and integrity in all we do.

Our approach to audit planning concentrates on identifying issues important to PBGC. We maintain an inventory of suggested audits we receive from a variety of sources, including the Board of Directors and PBGC management. Each year, we assess risk in terms of materiality, impact on operations, and potential for adverse publicity for the Corporation. Based on this risk assessment, we identify the most important challenges on which to focus our work. The final step is to plan and conduct audits that address those challenges.

OIG uses risk assessments to identify management challenges.

We continue to focus on these major questions:

- Does PBGC have a governance model that ensures reliable and complete financial reporting, effective customer service, and ethical business dealings?
- Does PBGC have strong controls that are needed to protect assets and minimize costs?
- Does PBGC continuously adapt to a changing environment to provide optimal customer service and generate cost savings?
- Do PBGC's information systems maximize customer service while protecting the privacy and integrity of information?
- Do PBGC contractors provide quality products and services at a reasonable price?

Further, as required by the Chief Financial Officers Act, we continue to audit PBGC's financial statements. The OIG contracts with an independent public accountant to perform this work.

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

The OIG follows the standards contained in the *Quality Standards for Federal Offices of Inspector General*, published by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). These standards require audits to be conducted in accordance with Generally Accepted Government Auditing Standards, issued by the Government Accountability Office. Our investigations comply with PCIE and ECIE *Quality Standards for Investigations*.

Management Challenges

Again in 2007, PBGC experienced a decline in the number of pension plans it trusted and participants for whom it assumed responsibility for paying future benefits. PBGC expects this trend will continue for the next several years. PBGC is also implementing major statutory amendments as a result of the Pension Protection Act of 2006, including higher premium rates and more strict pension plan funding requirements. These external factors create new challenges and opportunities for PBGC.

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

1. Governance

Among the reasons governance is a major challenge for PBGC are:

- it is a financial corporation with billions of dollars of assets to manage yet is also a federal agency that provides a social welfare program;
- its Board of Directors is comprised of three cabinet-level Secretaries - Labor, Treasury and Commerce - who oversee and set policy for PBGC;
- it deals with some of the largest U.S. employers in fulfilling its mission to encourage continuation of defined benefit pension plans and protect the benefits owed to those participants, balanced with protecting PBGC's financial health as it struggles with a deficit and record numbers of participants in terminated pension plans.

Oversight of the financial operation and financial reporting by the Board of Directors, PBGC management and the OIG is critical to effective corporate governance. Equally important is the ethical tone set by PBGC leaders as we conduct our business.

PBGC's Interim Director

Charles E.F. Millard was appointed as PBGC's Interim Director in June, pending confirmation by the Senate. The Inspector General (IG) and other OIG leaders met often with Mr. Millard, who is new to federal government service, to orient him to the OIG's oversight role. Other topics included reportable conditions from the financial statement audit, other management challenges, and PBGC's ethics environment. Mr. Millard evidenced his commitment to good governance by, among others, supporting PBGC leaders in aggressively addressing the reportable conditions and their underlying recommendations, and engaging in frank discussions with the OIG about some difficult ethics issues. At our suggestion, he invited the Office of Government Ethics Director, Robert Cusick, to come discuss best practices for a robust ethics environment. The Office of the General Counsel and OIG participated in that meeting.

Oversight by Congress, the Board, PBGC management and OIG are critical to effective corporate governance.

The Board of Directors Oversight

The Board met in May, at which time we briefed the members on the results of the FY2006 financial statement audit. The briefing included the status of reportable conditions in the Report on Internal Controls and a discussion of new reporting standards for the FY2007 audit (new standards discussed in Stewardship, below). The Inspector General also met in Executive Session with the Board.

The staff of the Board members worked with the Secretary of the Board to prepare revised By-laws that are before the Board for their approval. Among other things, the revised By-laws recognize the new statutory PBGC Director position and better define the reporting relationships between the Board and PBGC and the Board and the Inspector General, matters which were noted in recent OIG and Government Accountability Office (GAO) reports (see below).

In addition, the role of the Board of Directors was examined in a variety of contexts. For example:

- We coordinated with the GAO staff who conducted work on PBGC's governance and management structure requested by the Senate Finance and HELP Committees. In one report, *PBGC: Governance Structure Need Improvements to Ensure Policy Direction and Oversight* (GAO-07-808, July 2007), GAO assessed:
 - (1) the extent to which PBGC's governance structure provides PBGC management with policy direction and oversight; and
 - (2) whether the administrative responsibilities among PBGC's board, the Department of Labor (DOL), and PBGC's management are clearly defined.

With respect to the Board of Director's governance, GAO concluded that, because of time and resource constraints, the Board structure of three cabinet-level secretaries is not optimal for effective oversight and policy direction. In addition, there are no written procedures to ensure PBGC management provides information on all policy matters, and no written protocols for the Inspector General's reporting to the Board though it relies on the IG to provide oversight. The lack of reporting processes can limit the effectiveness of the Board's oversight because "it cannot be certain that it is receiving high-quality and timely information about all significant matters facing the corporation." We reached a similar conclusion in our evaluation report of PBGC's actions in selling United Airlines stock claims, and recommended that PBGC and the Board develop reporting guidance. (See *Semiannual Report to Congress, March 31, 2006 – September 30, 2006*.)

With respect to the clear distinction among the Board, DOL and PBGC management, GAO concluded that PBGC lacks formal guidelines to articulate the administrative roles of these parties which has led to "confusion and inefficiencies." By statute, PBGC is a corporation "established within the Department of Labor." GAO noted that neither the Board, DOL, nor PBGC has addressed the "extent to

Governance: is the Board structure optimal for effective oversight and policy direction?

which PBGC is a separate and distinct executive agency, a fact that has resulted in confusion over when DOL has the authority to manage PBGC operations.” This issue was the subject our audit of whether PBGC was required by DOL to pay a disproportionate share of the development costs of EFAST2, a DOL system. (See *Semiannual Report to Congress, March 31, 2006 – September 30, 2006.*)

- In another report, GAO examined the impact on PBGC’s governance and management of the separation of the Office of the General Counsel (OGC) into two entities (*PBGC’s Legal Support: Improvements Needed to Eliminate Confusion and Assure Consistent Legal Advice*, GAO 07-757R, May 18, 2007). The Counsel’s office was split, with some attorneys staying in OGC for general law matters such as procurement, labor relations, and ethics, as well as advising the Director on legal matters relating to the agency’s mission. The majority of attorneys were transferred to a new Office of Chief Counsel (OCC), within a new program office, responsible for ERISA and bankruptcy litigation and supporting negotiations with plan sponsors. GAO concluded that the reorganization had not clearly defined the roles and responsibilities of OGC and OCC, and PBGC was vulnerable to inconsistent legal advice. GAO cited our evaluation report of PBGC’s actions in selling United Airlines stock claims in which we reached a similar conclusion and recommended that PBGC develop guidance for internal reporting and consultation across functional lines for such significant matters. (See *Semiannual Report to Congress, March 31, 2006 – September 30, 2006.*)
- Among our Congressional briefings this period, we met with the Senate Health, Education, Labor and Pensions Committee and Senate Finance Committee in their preparations for confirmation hearings for PBGC’s first presidentially-appointed, Senate-confirmed Director. Important topics included the Board’s governance role and the Inspector General’s continued reporting to the Board.

We will continue to work with the Board and management for a governance model that ensures reliable and complete financial reporting, effective customer service, and ethical business dealings.

OIG Member of PBGC Internal Control Committee

The Assistant Inspector General for Investigations serves as a non-voting member of the PBGC Internal Control Committee. This committee is responsible for oversight and accountability regarding PBGC internal controls over financial reporting and its operations consistent with the Standards for Internal Control for the Federal Government (GAO Green Book), OMB Circular A-123, and Federal Managers’ Financial Integrity Act requirements. During this period, the committee initiated efforts to address potential invalid social security numbers.

OIG assisted Congress
in preparing for
confirmation
hearings for PBGC’s
first presidentially-
appointed Director.

OIG focuses its efforts on financial management, fraud prevention and protecting participant data.

2. Stewardship

The OIG's work in the "Stewardship" area focuses primarily on PBGC's stewardship of entrusted resources, which includes fraud prevention, detection of improper payments, protecting participant data, and safeguarding plan assets close to plan termination, as well as the Corporations' overall financial management. Several aspects of PBGC's Stewardship goal are covered separately in OIG's management challenge areas - i.e., corporate governance, information technology, and procurement and contracting - but our goals are similar: improving the Corporation's stewardship of trust funds.

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

- In audit, the primary focus was auditing PBGC's financial statements and conducting associated work.
- In investigations we identified, assisted with prosecuting, and obtained recoveries from those who fraudulently received pension benefits. We also identified weaknesses in particular pension benefit payment processes to prevent future fraud.
- The OIG financial audit manager is participating in the PBGC audit follow-up working group which is developing an agency directive to guide PBGC officials' responses to audit reports from OIG and GAO.

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2007 Financial Statements

In accordance with the IG Act of 1978 and the Government Corporations Control Act of 1945, the IG contracted with Clifton Gunderson LLP (CG) to conduct the audit of PBGC's FY2007 financial statements. The audit will be conducted in accordance with Government Auditing Standards, U.S. Generally Accepted Auditing Standards, and the GAO/PCIE Financial Audit Manual (FAM).

CG will issue a combined audit report, to be published by November 15, 2007, that includes:

- an opinion on the financial statements,
- an opinion on management's assertion on the effectiveness of internal controls over financial reporting and compliance with applicable laws and regulations, and,
- a report on the results of CG's testing of compliance with applicable laws and regulations.

CG will also opine on the special-purpose financial statements prepared by PBGC for submission to the Treasury through the Government-wide Financial Reporting System. These special-purpose financial statements directly link PBGC's audited financial statements to the FY2007 Financial Report of the United States Government.

This year, the internal control opinion will be a high-level discussion of significant deficiencies for the public's use. CG will prepare a limited disclosure report with

detailed findings and recommendations related to the significant deficiencies identified, as well as a management letter which includes findings and recommendations concerning:

- improvements needed in internal control found during the audit but not required to be reported in the internal control portion of the combined audit report, and
- other management issues.

Maintaining and improving communication continues to be very important to the OIG, CG, and Acting Chief Financial Officer (CFO). In late March, the OIG and CG held an entrance conference to kick off this year's audit. CG and the OIG are working closely with the Acting CFO to coordinate and facilitate receiving the documents and items needed by the auditors for testing. CG and OIG auditors meet regularly with the CFO and other PBGC management officials to discuss the status of the audit, including any potential or confirmed significant issues and audit findings.

The Acting CFO also invited the auditors to participate in periodic meetings to discuss and understand PBGC's interim (quarterly) financial statements for the periods ending March 31 and June 30, 2007. This provided CG and the OIG with an opportunity to understand interim results and identify issues early in the process.

CG's preliminary draft report on internal controls, as well as the limited disclosure report, will be provided to management by mid-October. The date for issuance of these preliminary draft reports was extended so that the auditors would have the opportunity to review management's corrective actions related to the four significant deficiencies (formerly reportable conditions) identified in the FY2006 Auditor's Report on Internal Control, as well as findings and recommendations included in the FY2006 management letter.

Sensitive Payments Testing

In conjunction with the FY2007 financial statement audit, the OIG performed testing of sensitive payments, as required by the FAM. As part of this work, we performed testing of senior level management activities and expenses, such as compensation, travel, perquisites, preparation of required financial disclosure forms, and PBGC vehicle usage. We tested the expenditures, activities, and related financial transactions for compliance with applicable laws, regulations, and PBGC policies and procedures; adequacy of the internal controls, including proper authorizations; and the proper recording and reporting of these expenditures. The testing was conducted in accordance with the GAO FAM and the GAO Sensitive Payments audit guide and the results incorporated into the financial statement audit reports, as appropriate.

New Audit Standard on Internal Control Briefed to Senior Staff and the PBGC Advisory Committee

Effective for the FY07 financial statement audit period, there is a significant change for reporting on internal control. The American Institute of Certified Public Accountants issued new **Statement on Auditing Standard No. 112**, that

OIG continues to work with PBGC to strengthen financial management.

*Audit reporting
standards tightened in
FY2007.*

governs how the auditor communicates internal control matters identified in the financial statement audit. The most significant impact of this standard relates to the auditors' reporting of significant weaknesses in internal controls that have a "direct and material effect on the financial statements" (including safeguarding of assets). In the past, the auditors classified these weaknesses as material weaknesses (the highest level of significance), reportable conditions, or less significant management letter comments. Under the new standard, reportable conditions will be called "significant deficiencies." In addition, the threshold for reporting weaknesses in the Report on Internal Control has been lowered.

During the FY2007 financial statement audit, using the new standard, the external auditor will reevaluate open recommendations reported in prior management letters taking into account the new standard. As a result, the auditor may need to report some former management letter comments (individually or in the aggregate) as significant deficiencies in the Report on Internal Control.

In May and June 2007, the OIG, together with the Contracts and Controls Review Department briefed PBGC senior staff and the PBGC Advisory Committee on this new standard and its implications for PBGC.

Investigations

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

- **Arrest for theft of \$15,000.** We previously reported that a participant's daughter failed to report her father's death to PBGC and received \$15,000 to which she was not entitled. The daughter confessed the fraud to the OIG investigator and stated she would repay the \$15,000 to PBGC in lieu of criminal prosecution. After her confession, however, the daughter failed to cooperate in the repayment process, became elusive and refused to contact the PBGC. After a year of pursuing leads, we located the daughter again. Working jointly with the Michigan State Police, the daughter was arrested and is being prosecuted at the local level. A special thanks to Detective Sergeant David Robertson of the Michigan State Police in Detroit, Michigan.

- **Recovery of \$25,000.** Based on a referral from the Benefits Administration and Payment Department, we investigated a participant's daughter who continued to receive pension payments from PBGC for more than five years after her mother's death. The payments were electronically deposited into a jointly held bank account until PBGC learned that the participant was deceased through a data match against Social Security's records. The OIG investigator tracked the suspect to another state and obtained an agreement for repayment of more than \$25,000 in lieu of criminal prosecution.
- **Prevention of fraudulent benefit claim.** The Appeals Division within OGC requested our assistance to investigate an allegation that the former spouse of a deceased Eastern Airlines employee made false statements and claims to PBGC in order to receive benefit payments as the surviving spouse. In a joint effort with the Appeals Division, the investigation substantiated that while the former spouse and participant were married at one time and then divorced, they never lived in common law marriage any time after their divorce. The investigation did not disclose any witnesses or records to support the former spouse's claim. As a result, the Appeals Division denied her fraudulent claim for a surviving spouse benefit.
- **Referred possible fraud in on-going pension plan to DOL.** A participant in a Sheet Metals Workers Union pension plan called the OIG alleging he had been cheated by the Union and the Union's pension board because he was given 10 years less credit than he was entitled. The participant also said he had documents and information showing that individuals were receiving retirement credit for more years than they had actually worked. He reported that he and his family had been physically threatened because he was trying to report the corruption he believed was going on in the administration of the pension plan. Because this plan is on-going, it is not within PBGC's jurisdiction. We briefed and referred the matter to the Enforcement Division of the Employee Benefit Security Administration at the Department of Labor. We notified the participant of our referral to the Department of Labor, who expressed his gratitude for taking his complaint seriously.

*You can run, but you
can't hide if you steal
pension benefits!*

Employee Defrauds PBGC Benefit Program

Upon a referral by the program manager, we investigated whether an employee submitted false documentation to the Federal Employee Education and Assistance Fund (FEEA) in order to meet eligibility requirements for the Child Care Subsidy Program offered by PBGC. The investigation disclosed that the employee made false statements and submitted false tax returns to FEEA, through PBGC, from 2002 - 2006 in order to qualify and maintain eligibility to receive the child care subsidy. During the course of the investigation, the OIG discovered the employee had not actually filed tax returns with the Internal Revenue Service for several years. The OIG eventually obtained a statement from the employee admitting that the employee had not filed tax returns for 2001 through 2005 until approximately January 2007. Upon declination of criminal prosecution, we issued a report of investigation to management for administrative discipline. Upon review, management suspended the employee without pay.

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

3. PBGC Business Model

PBGC's business environment is changing. For example, PBGC expects the current decline of pension plan terminations and fewer participants will continue over the next few years, and it will receive more premium income as a result of the Pension Protection Act. It needs to improve its information security program (see management challenge below) and make decisions about updating old business systems in an era of relatively static budget projections. It is a small federal entity dealing with some of the largest and most sophisticated U.S. corporations in negotiations and litigation to protect pension plan participants. One of PBGC's significant management challenges is to adapt how it conducts business in its changing environment — to have the right staff and resources in the right place when it is needed. In the "Business Model" challenge, OIG conducts work to evaluate PBGC programs and identify options for adapting to its changing environment while providing superior service and generating cost-savings.

PBGC's Multiemployer Program

Though the majority of PBGC's resources are devoted to single-employer pension plans, PBGC is also responsible for multiemployer plans. These are plans sponsored by several employers, generally covering employers in the same industry whose employees are represented by a union. The multiemployer plans are governed by trustees from the employers and unions and, until recent years, were not a significant financial impact on PBGC. Each year, PBGC is providing more plans with financial assistance to pay their benefits and the multiemployer trust fund has experienced an increasing deficit. From 2005 to 2006, this deficit has grown from \$335 million to \$739 million.

As the financial risk to PBGC is growing and the multiemployer program resources are few, we consulted with program officials on multiemployer pension plan work that would be valuable. This is the second in a series of planned audits to address this growing risk and make recommendations for an improved business model.

Audit of Terminated but Solvent Multiemployer Plans

This project is to audit several terminated but solvent multiemployer plans. These multiemployer plans are considered terminated when the employers associated with these plans stop making contributions and they all withdraw from the plan. Also, the plan participants stop accruing benefits. Even though these plans are terminated, the plans normally still have sufficient assets to pay participants their benefits and to pay for the administrative costs to operate the retirement fund for some years.

Eventually, most of these terminated plans' assets will be depleted and they will not have funds to pay their participants and administrative costs needed to operate. At such time, the plans request financial assistance from PBGC to operate. We have been in discussions with PBGC about possible ways to take action now to better protect the

assets of the plans and reduce the potential costs that PBGC would incur in assisting these plans without any interruptions in the participants' benefit payments. We will issue the results of this audit in the next reporting period.

Multiemployer Retirement Fund Management Letter (2007-11/PA-0037-2)

During the audit of the multiemployer plan above, we identified some internal control matters that, if corrected, would strengthen the plan's administration. These matters related to compliance with the plan's notification requirements, record keeping, and ensuring that a disbursement error was corrected. We discussed these administrative matters with PBGC officials. Because multiemployer plans remain under the oversight of the Department of Labor, we are discussing these matters with Department of Labor officials for appropriate transmission to the Plan.

Follow-up on prior multiemployer audit

In the previous semiannual report, we reported on our first audit in the multiemployer pension plans area: looking for opportunities for PBGC to reduce the administrative costs PBGC pays to terminated and insolvent multiemployer plans. Our audit reviewed administrative costs for the 10 smallest insolvent multiemployer plans and concluded that these costs were disproportionate when compared to the benefits paid to participants. We estimated that PBGC could save about \$2 million of future multiemployer trust funds if PBGC purchased annuities or paid lump sums to each plan participant. PBGC agreed with our recommendations and has closed 3 insolvent multiemployer plans since April. In addition, annuity quotes have been requested for two additional plans and PBGC expects both plans to be closed by the end of this calendar year. The remaining five plans identified in our report have issues such as the collection of withdrawal liability or clean-up of deferred vested participant lists. As PBGC resolves the remaining issues, PBGC expects to close these five plans.

4. Information Technology

PBGC's mission of protecting and providing pension plan retirement benefits for over 44 million Americans relies heavily on the integrity and security of the PBGC information systems network, and the confidentiality, completeness, accuracy, and availability of information and information processing requirements for pension benefits. In the past, information security has been reported as a reportable condition in financial statement audit's internal control report.

We continue to perform work to assist the Corporation in meeting the challenge of providing enhanced customer service, including protecting the integrity and privacy of pension plan participants' information.

In response to audit report, management funded annuity purchases for small multiemployer insolvent plans to save future trust fund payments.

Ariel Application System Post-Implementation Audit 2007-7/IT-0020

We engaged Accretive Solutions, Inc. to assist us in performing a post-implementation and performance audit of the **Ariel** application, a replacement system for PBGC's existing Actuarial Calculation Toolkit II.

Since the time **Ariel** was implemented and the Corporation's actuaries began using it, many users and management officials have raised concerns about the cost, performance, and overall management of the **Ariel** project. Because **Ariel** plays a significant role in PBGC's long term business needs, has taken a long time to develop, and has been an expensive system for the Corporation to develop and implement, our office initiated a review of the **Ariel** project. Specifically, the objectives of this audit were to answer the following questions:

- Has the **Ariel** application implementation met its established performance and cost projections?
- Has the vendor complied with PBGC policy and procedures during modifications and development, implementation, and operations?
- Have appropriate information technology and business controls been implemented and tested for proper functionality?

PBGC needs to reassess and verify costs and benefits of Ariel before making additional investments.

Overall, we concluded that PBGC needs to reassess and verify the cost and benefits of **Ariel** before making any additional investments in this application. The estimated cost and benefits of the project have never been adequately documented and the project has experienced delays. As a result, the initial sole source contract for **Ariel's** development grew from an initial obligation of about \$500,000 with a ceiling of just over \$900,000 to more than \$2.8 million after six amendments. The second sole source contract for **Ariel's** implementation grew from \$1.8 million to over \$31 million with 13 amendments. Additionally, there was a separate sole source contract for a consultant to work with the implementation of **Ariel** in the amount of \$757,000. PBGC also needs to solicit proposals, before modifying the existing contract, to determine if there are other vendors that can provide a better solution for valuing plan benefits or providing the necessary services at a competitive cost.

We found that the contractor generally complied with PBGC policy and procedures during development, implementation, operations and modifications. Our review also identified various business and technology controls at PBGC and at the contractor's site. These controls are related to the business processes performed by Benefits Administration and Payment Department (BAPD) staff using **Ariel** and technology controls related to application processing, change management, testing, and information security. Although we found the controls are generally adequate, we did identify areas where improvement is needed.

We recommended that PBGC improve the management of the *Ariel* project by:

- Re-assessing and verifying the costs and benefits of *Ariel* before making any additional investment in this application;
- Soliciting other contract proposals to determine if there are other vendors available for valuing plan benefits; and
- Ensuring compliance with the requirements in the IT systems life cycle methodology when investing additional resources in *Ariel*.

PBGC management agreed with our recommendations, stating they were already implementing a number of them, and welcomed the opportunity to improve their processes in planning and obtaining information technology solutions for participant services.

Continuity of Operations and Contingency Planning

PBGC made such significant progress this year in continuity of operations and contingency planning (commonly called COOP) that this reportable condition was closed and only a few management letter comments remain. A fully engaged team of PBGC representatives from all areas within the Corporation, led by the Facilities and Services Department, developed a comprehensive contingency plan along with needed improvements to its existing COOP. The OIG is a member of this working group and has observed continued cooperation from all areas which contributed to PBGC's successful corrective actions. Some of the more positive results of this project included:

- A completed business impact analysis
- Engagement and support of PBGC Senior Staff
- Focused and objective-oriented testing
- Signed COOP policy
- Improved identification and evaluation of critical and essential processes

Additionally, PBGC has engaged the services of an independent consultant to review a number of the exercises conducted in FY2007 and provide a report on their observations. This report will also provide management with suggestions for improving and maturing its COOP and contingency planning processes. The OIG will continue to monitor PBGC's testing and provide feedback to management to help achieve their goal of having a reliable plan for recovery of operations in the event of a disaster or emergency situation.

Federal Information Security Management Act Report

PBGC continues to improve its system security infrastructure and posture in compliance with the Federal Information Security Management Act (FISMA) of 2002, as reported to the Office of Management and Budget (OMB). During FY2007, PBGC

PBGC's actions resulted in resolving the continuity of operations and contingency planning reportable condition.

PBGC continues to improve its system security infrastructure.

continued to take significant steps to identify levels of security required to control and protect its assets and information, and further improve its security program. For example, this year PBGC:

- Identified the need to create a robust risk management and security program to close out existing audit findings related to information security.
- Implemented a corporate-wide plan of action and milestones (POA&M) process to identify, track, monitor and report security related issues.
- Completed and initiated the roll-out of role-based training for all staff members based on current job responsibilities.
- Developed comprehensive policy guidance for implementing security practices and assigning accountability for compliance.
- Improved the structure and reporting lines for security-related positions within the corporation.

For the past several years PBGC's information security internal controls and operational conditions was a reportable condition, and continues as a significant deficiency today. Although PBGC continues to make progress in information security, enhanced efforts are still needed in the areas of organizational responsibility and authority, policy development and implementation, and risk assessment and mitigation.

Certification and accreditation of major business and general support systems continues to be a major area of concern. We have previously reported this issue in our FISMA report and continued this year, as OMB increases its focus on this aspect of information security. PBGC has recently overhauled its process for certifying and accrediting all of its major business applications and general support systems following the determination by the OIG's independent auditors that previous certifications and accreditations needed improvements. Plans are for all systems to have been through the C&A process in FY 2008.

Additionally, PBGC has made progress in identifying and improving its adherence to requirements and guidance, such as National Institute of Standards and Technology and Federal Information Processing Standards.

Protection of Personally Identifiable Information

In conjunction with FISMA, we performed a high-level review of PBGC's compliance with OMB Memorandum 07-16. With regard to the Privacy Act and Personally Identifiable Information (PII), PBGC has implemented policy and processes that require all staff, both employee and contractor, to ensure PII is protected from unintentional disclosure. In addition, a process is established to conduct a Privacy Impact Analysis for all systems on an annual basis with a review and sign-off performed by the Senior Privacy Official.

OIT referral results in recovery of missing laptops

After PBGC's Office of Information Technology conducted an inventory of laptop computers and discovered they could not account for several, they reported the loss to our office for investigation.

- **Missing laptop found at contractor's home.** This investigation revealed a PBGC contractor had taken one of the laptop computers to his residence for personal use over the past four years. The laptop had not been assigned to the contractor nor was the contractor given permission to keep the laptop at home. With the assistance from the local police department, OIG special agents searched the contractor's residence and the laptop was recovered. The laptop has been sent for forensic analysis to determine if any Personally Identifiable Information was contained on the laptop. This case is on-going.
- **Former employee arrested for laptop theft.** This investigation resulted in a criminal charge of theft of government property. A PBGC federal employee was terminated and, unbeknownst to PBGC, took two laptop computers. We were able to track the usage of the computers to another state. A joint investigation with the Greeneville County Sheriff's Office resulted in the arrest of the former employee for larceny and recovery of the two laptop computers. The case is currently being prosecuted in the state court of South Carolina. The laptops will be returned to PBGC upon final disposition of the criminal case.

OIG and OIT joint efforts led to recovery of missing laptop computers.

5. Procurement and Contracting

Procurement and Contracting remains a significant activity and management challenge:

- In FY2007, the Corporation continued to spend more than 2/3 of its annual budget through procurement and contracts;
- PBGC has stated that its "staff" is comprised of about 1/3 federal employees and 2/3 contract employees.

In the past we have noted that the Corporation awarded a large percentage of labor hour contracts and a relatively small percentage of performance based contracts. The PBGC Contracting Officer has taken action to change this practice. By an Order issued in September, PBGC established its "policy to use as a first choice fixed priced performance-based competitive procurements." In addition, for labor-hour contracts in FY2007, the Contracting Officer reported PBGC awarded fewer and on-going contracts decreased from 64% to 52%, with an expected decrease in FY2008 to 32%.

PBGC established a policy to use fixed price performance-based contracts and reduce labor-hour contracts.

As is common across the federal government, PBGC contracts out for much of its information technology (IT) services. For example, in FY2007, the Corporation's budget for services contracts was about \$257 million, of which more than \$56 million was for IT service contracts. Based on OIG's FY2007 risk assessment, we identified the top five IT contractors with contracts valued at more than \$124 million dollars. We audited three contracts involving two contractors with billings of \$30.5 million to PBGC. Of this amount, we questioned costs of \$984,254, or 3 percent. Overall, for this semiannual reporting period, we issued 4 reports on incurred costs that identified more than \$1 million in questioned costs.

In addition, we issued a trend report that summarized audit work done over the past 7 years in procurement and contracting at PBGC to assist the new Procurement Director in addressing systemic issues.

Incurring Cost Audit of PBGC Contractor (2007-8/CA-0033-1)

We audited cost representations in invoices submitted to PBGC by a contractor to provide pension auditing services. We evaluated whether costs incurred for fiscal years 2003 - 2006 were allowable, reasonable, supported and consistent with contractual provisions. For the four years audited, the contractor billed PBGC \$19,226,658, excluding the \$50,000 retention fee withheld by the Procurement Department. Of this amount, we sampled \$5,515,572, or 29 percent of the four years' costs.

We questioned \$167,459 of the sampled costs tested, or 3%, based on the following issues:

- Questionable experience and education of contractor employees of \$147,681 as compared to contract requirements; and
- Billings for employee's lunch period of \$19,778.

The report recommends disallowance of the \$167,459 and initiation of necessary collection actions.

Agreed-Upon Procedures for Incurred Cost Audits of PBGC Contractors (2007-13/CA-0038-1, 2007-14/CA-0038-2, and 2007-15/CA-0039)

We hired an Independent Public Accountant (IPA) to examine cost representations in invoices submitted to PBGC by contractors to determine whether the costs incurred were allowable, reasonable, supported and consistent with contractual provisions. We issued three audit reports in September in which we recommend corrective actions including determination of the reasonableness of the questioned costs and initiation of necessary collection actions.

- For a contractor that provided database administration and technical support, and UNIX administration and technical support, the IPA audited costs for the fiscal years 2001 - 2003 and 2005 - 2006 (excluding 2004). For the five years audited, the contractor billed PBGC \$21,934,799. The audit report questioned \$533,081, or 2%, of the billed costs related to the following issues:
 - No support for labor hour billings of \$52,380;
 - Unsigned timesheets by employee and supervisor of \$81,667;
 - Erroneously billed government holidays of \$9,248;
 - Erroneously billed subcontractor costs of \$29,142;
 - Unapproved subcontractor costs of \$95,142; and
 - Unverified education and experience for all employees of \$265,502.
- For a contractor that provided systems engineering services, the IPA audited costs for fiscal years 2005 and 2006, during which the contractor billed PBGC \$2,056,487. The IPA's report questions \$113,782, or 5.5%, of the billed costs related to the following issues:
 - No timesheet support for employee of \$2,051;
 - Erroneously billed subcontractor costs of \$82,880;
 - Unapproved subcontractor costs of \$3,215; and
 - Unverified education and experience for all employees of \$25,636.
- For a contractor that provided systems engineering services, the IPA audited fiscal years 2004 - 2006, during which the contractor billed PBGC \$6,591,396. The IPA's report questions \$337,391, or 5 %, of the billed costs related to the following issues:
 - No support (Time Logs) of billings for five employees of \$125,488;
 - Unapproved billings for offsite personnel of \$41,843;
 - Erroneously billed subcontractor costs of \$9,502;
 - Unapproved subcontractor costs of \$68,883; and
 - Unverified education and experience for employees of \$91,675.

OIG audits identify more than \$1 million in questioned costs.

Trend Analysis Report of PBGC Procurement Issues from 2000 – 2007 (2007-6/CA-0036)

This memorandum report highlights audit trends in the procurement and contracting area, and provides a status of the audit recommendations addressed to the Procurement Department. We analyzed 71 reports issued since 2000 by the GAO, PBGC's Contracts Controls and Review Department, and the Office of Inspector General. These reports contained 100 recommendations to improve PBGC's procurement activities and contractor oversight. This trend report identifies major

problem areas and causes of these problems to assist PBGC's new Procurement Director.

During this period, the reports identified more than \$12 million in questioned costs and recommended recovery from contractors. Two of the leading causes for questioned costs were contractors: (1) did not maintain adequate documentation to justify the costs they billed PBGC, and (2) hired employees who did not have the qualifications required under the contract.

We reported that 45 of the 100 recommendations issued were closed based on our review of PBGC's corrective actions. After the report, we closed an additional 24 recommendations. Implementing the remaining recommendations will help PBGC address persistent issues that cause procurement and contracting operations to be a major management challenge and lead to improvements.

Work in Process

We expect to issue a draft report on PBGC's contract administration of the PBGC contract audited in 2007-13/CA-0038-1, discussed above, by October 31, 2007.

Additionally, we are following up on issues identified in reports 2007-14/CA-0038 and 2007-15/CA-0039, discussed above, and expect to issue two performance reports on PBGC's administration of the three IT contracts by December 28, 2007.

Contractor Employee Submits False Timesheets

We received a complaint alleging that a federal employee in the Department of Insurance Supervision and Compliance was conspiring with a PBGC contractor to approve hours fraudulently billed to PBGC. The investigation disclosed no questionable activities on the part of the federal employee; however, we discovered that the contractor made false statements on her time record to receive payment for days and hours she did not work. We referred the matter to PBGC management for administrative recovery of improper payments and made recommendations to help prevent future occurrences. Management action is pending.

Advisory Memorandum to Procurement Director

The Procurement Director asked us to investigate an alleged procurement violation resulting in the disclosure of pricing information to competing contractors. The investigation did not substantiate that specific pricing information was divulged from an official source. However, our investigation identified procedural weaknesses that could have jeopardized the integrity of the procurement process. For example:

- Pricing information was given to TEP members without instructions as to its use.

Trend report identifies systemic contracting issues for new Procurement Director.

- Unencrypted sensitive/privacy information was sent by e-mail.
- A staff member working with pricing information was not properly trained to handle such sensitive data.

We communicated these weaknesses to management to help protect the integrity of the procurement process.

Other OIG Reporting

Access to Information

Under the Inspector General Act, the Inspector General is to have unfettered access to all agency records, information, or assistance when engaged in an investigation or audit. Whenever access to requested records, information, or assistance is unreasonably refused or not provided, the Inspector General must promptly report the denial to the agency head.

During this six month reporting period, the Inspector General's access to information was not restricted.

Management Decisions

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

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

Investigation identifies procedural weaknesses in the technical evaluation process.

Other Office of Inspector General Activities

Review of Proposed Statutory and Regulatory Changes

Statutes

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

Regulations

PBGC continues in a major effort to streamline its regulations and to improve administration of the pension insurance program, with a focus on making pension-related information more accurate, complete and transparent. Most of its recent regulation changes were required to implement the Pension Protection Act's amendment of ERISA. Proposed regulations issued this period include those that: require greater disclosure of termination information; clarify the Appeals Board's administrative authority; and set standards for who is required to file financial and actuarial information under section 4010. Final rules included amendments to regulations relating to premium rates and payment. We reviewed, provided written comments, and had substantive conversations with the drafters of these proposed and final rules.

Outreach to Field Offices

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

*OIG outreach to
PBGC's field offices
results in increased
communications.*

The FBA offices provided feedback that our presentations were educational and the information useful. In addition, we have increased our presence at the FBA offices and we have a better understanding of the activities that take place on a daily basis at those offices.

Audit Follow-up Working Group Established

When we surveyed the FY2006 financial statement audit participants they identified the audit follow-up process as needing improvement (Lessons Learned report in Semiannual Report to Congress October 1, 2006 to March 31, 2007). As a result, PBGC and the OIG established a working group to “reengineer” the process of following up on, and communicating the status of, outstanding audit recommendations in a timely manner. The working group is comprised of the OIG, Chief Financial Officer, Chief Operating Officer, Chief Information Officer and the General Counsel, as well as representatives from various departments and the external auditors (Clifton Gunderson). The working group has accomplished the following to date:

- Reengineered the audit follow-up process with respect to all types of audits, internal and external, whether financial, contract compliance, forensic, or performance related.
- Prepared a flowchart to reflect the revised process.
- Prepared a draft revised PBGC Order to reflect the new process and incorporate new audit terminology (e.g., significant deficiency).

Next Steps – Once the working group has come to agreement on the contents of the draft revised order, it will be presented to the Interim Director and the remaining Executive Management Committee members for comment and official issuance.

Peer Review of FLRA OIG Investigations

Within the OIG community, we conduct peer reviews of audit and investigative functions to assure quality programs. During this reporting period, we reviewed the system of the internal safeguards and management procedures for the investigative function of the Federal Labor Relations Authority Office of Inspector General. Our review was conducted in conformity with the President’s Council on Integrity and Efficiency (PCIE) and Executive Council on Integrity and Efficiency (ECIE) Quality Standards for Investigations and the PCIE/ECIE Quality Assessment Review Guidelines.

External Activities

Various staff members participated in external professional activities, including:

- The IG was an active participant of the Executive Council on Integrity and Efficiency (ECIE), a council of Inspectors General that promotes collaboration on integrity, economy, and efficiency issues that transcend individual agencies. The IG, supported by the Deputy IG, served as member of the Legislative Committee that reviews proposed legislation affecting IGs. There are bills in the House and Senate to amend and strengthen the IG Act. On behalf of the ECIE IGs, the IG and Deputy

*OIG conducts first
investigative peer review.*

IG conducted a study of ECIE compensation, drafted proposed pay language, and solicited and outlined ECIE views on the Senate and House bills. Both the Senate and House expect to pass legislation this session, so we anticipate significant legislative activity again next period.

- The Assistant IG for Audit is a member of the Federal Audit Executive Council (FAEC). The FAEC's purpose is to discuss and coordinate issues affecting the federal audit community, with special emphasis on audit policy and operations of common interest to FAEC members. He serves on the FAEC's Audit Committee that sponsored training in April on the new peer review guidance.
- The Assistant IG for Investigations participated on a Curriculum Review Conference (CRC) on the Public Corruption and Integrity Investigations Training Program hosted by the Inspector General Academy. The purpose of the CRC was to update and refine the Public Corruption and Integrity Investigations Training Program. The program is designed to instruct investigators in the procedures, techniques and legal issues associated with investigating allegations of several types of employee and agency corruption. The pilot of the revised program will be held at Federal Law Enforcement Training Center, Glynco, GA in February 2008.
- IT Audit Manager serves as the Program Committee Chair for a chapter of the Information Systems Audit and Control Association. This committee is responsible for setting the program for the monthly meetings so members have an opportunity to receive continuing professional education credits to meet their certification requirements in the fields of audit, technology, security, controls, and management for both the private and public sectors.

OIG's Strategic Plan and Initiatives

Our Strategic Plan is focused in three "voices": the Stakeholder, the Business, and the Employee. We selected two major initiatives to which we've committed significant resources this period to ensuring their successful implementation by January 2008:

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

Voice of the Business: The final edits were completed for the updated OIG Audit Manual with approval for its use granted by the IG. Using the audit manual as guidance, we began work on developing our solution to improving our audit process and the required supporting workpapers.

A team consisting of OIG staff and contractor, with input from OIG management, have spent a majority of this period working on completing the development of our automated workpaper package – TeamMate – for use by the audit staff beginning January 2008. This package has a number of modules that will allow the OIG to plan, coordinate, monitor, and manage our audits in a completely automated environment. Once fully operational, this package will not only become our system for automated

*OIG leverages technology
to improve performance.*

workpapers, but will allow us to complete and monitor progress of our audit plans; issue and track recommendations; build and better manage our audit projects; and manage staff time and expenses related to our work schedules. Our plans are to begin training an audit team in October 2007 to pilot the package. At the completion of the pilot audit, plans are to roll-out training to the rest of the audit staff and begin use on a regular basis in the second quarter of FY 2008

Voice of the Employee: We are in the process of implementing a new Performance Management System (PMS). Similar to the Corporation's efforts toward a performance based management system, the OIG is implementing a PMS that recognizes the contributions of each employee to the success of the OIG's mission, and creates an environment that is conducive to building a high performing organization. Our performance based management system will help recruit, develop, and retain staff with the competencies needed to be successful, and identify and acquire the staff capabilities necessary to accomplish the OIG's mission. We anticipate implementation of the new PMS in January 2008.

Self-Assessment and Certification of OIG General Support System

Federal rules and regulations, such as FISMA, Office of Management and Budget (OMB) A-130, NIST 800-37, require that information and the systems that process it are invaluable assets that must be adequately safeguarded. Hence, adequate security of these assets becomes a fundamental responsibility of management and includes reasonable assurance that the:

- Systems and applications operate effectively and provide appropriate confidentiality, integrity, and availability;
- Protection of information is commensurate with the level of risk and magnitude of harm resulting from the loss, misuse, unauthorized access, and/or modifications; and
- System security strategy and operations are properly designed and implemented, including assigning appropriate officials for security responsibility and system processing authorization prior to system operations, which are performed periodically thereafter.

To that end, our office performed a self-assessment on the OIG's general support system of the Local Area Network (LAN). The scope of the self-assessment encompassed the areas of OIG LAN management, operational, and technical controls designed, implemented, and utilized to protect the confidentiality, integrity, and availability of information and information processing. The self-assessment was performed and completed by reviewing and updating components of the OIG LAN certification package: Risk Assessment, Security Plan, and the Security Testing and Evaluation Program for the firewall, routers, and Windows and SQL servers.

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.	23
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	5-22
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	5-22
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	29
Section 5(a)(4)	Matters referred to prosecutorial authorities.	10-11, 17, 30
Section 5(a)(5)	Summary of instances in which information was refused.	21
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.	28
Section 5(a)(7)	Summary of each particularly significant report.	5-22
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	28
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	28
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period.	22
Section 5(a)(11)	Significant revised management decisions.	22
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	22

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

For the Six-Month Period Ending September 30, 2007

	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.	13	\$5,949,654	\$4,223,721	-0-
B. Which were issued during the reporting period	4	\$1,151,713	\$179,919	-0-
Subtotal (Add A. & B.)	17	\$7,101,366	\$4,403,640	-0-
C. For which a management decision was made during the reporting period.	8	\$5,084,266	\$4,219,480	-0-
(i) dollar value of disallowed costs	6	\$429,033	\$42,687	-0-
(ii) dollar value of costs not disallowed	5	\$4,655,233	\$4,176,793	-0-
D. For which no management decision had been made by the end of the reporting period.	9	\$2,017,099	-0-	-0-
E. For which no management decision was made within six months of issuance.	5	\$865,386	\$4,241	-0-

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

**Unsupported costs are a subset of questioned costs.

SIGNIFICANT PROBLEMS, DEFICIENCIES AND RECOMMENDATIONS

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
96-4/23093-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 1995 Financial Statements 03/13/1996	1**	Reportable Condition: Integrating Financial Management Systems	PBGC needs to complete the integration of its financial management systems.
2003-3/23168-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2002 - 2001 Financial Statements 01/30/2003	2**	Reportable Condition: Implementing & Enforcing Information Security Program	PBGC needs to complete its efforts to fully implement and enforce an effective information security program.
2004-2/23176-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2004 - 2003 Financial Statements 1/15/2004	2**	Reportable Condition: Improving Single-Employer Premium Accounting System	PBGC needs to improve controls related to single-employer premiums.
2006-1/FA-0014-1 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2005 - 2004 Financial Statements 11/15/2005	3**	Reportable Condition: Strengthening Preparedness for Unanticipated Incidences & Disruptions	PBGC needs to strengthen its preparedness for unanticipated incidences and disruptions.
2007-7/IT-0020 <i>Ariel</i> Application System Post-Implementation Audit 08/21/2007	3	Evaluating Continued Use of Benefit Calculation Software	PBGC needs to reassess and verify cost and benefits of <i>Ariel</i> before additional investment, and ensure compliance with IT development methodology.

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

** Includes Significant Recommendations from previous semi-annual reports on which corrective action has not been completed.

SUMMARY OF INVESTIGATIVE ACTIVITIES
For The Six-month Period Ending September 30, 2007

Investigations

Pending beginning of period	13
Opened	5
Closed	6
Pending end of period	12

Inquiries

Pending beginning of period	11
Opened	13
Closed	16
Pending end of period	8

Financial Recoveries*

Theft of Funds Recovered	\$25,962
Court Ordered Fines, Penalties, and Restitution	-0-
U.S. Government Property Recovered	\$1,200*

Criminal Actions*

Arrests	2
Indictments	1
Convictions	0

Administrative Actions*

Terminations	0
Suspensions	2
Oral or Written Reprimand	0

Referrals

For Prosecution:	
Department of Justice	3
Declined	3

Various States' Attorney Offices	0
Declined	0

For Other Action:	
PBGC Management for Corrective Action	2

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

** Approximate value of 3 missing laptops recovered.

Glossary

Questioned Cost

A cost the OIG has questioned because of an alleged violation of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; because such cost is not supported by adequate documentation; or because the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Unsupported Cost

A cost the OIG has questioned because of a lack of adequate documentation at the time of the audit.

Disallowed Cost

A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.

Funds to Be Put to Better Use

Funds the OIG has identified in an audit recommendation that could be used more efficiently by reducing outlays, deobligating program or operational funds, avoiding unnecessary expenditures, or taking other efficiency measures.

Management Decision

Management's evaluation of audit findings and recommendations and issuance of a final decision concerning management's response to such findings and recommendations.

Final Action

The completion of all management actions described in a management decision with respect to audit findings and recommendations. If management concluded that no actions were necessary, final action occurs when a management decision is issued.

Misconduct

Action of employees or contractors that violates laws, rules, or regulations and for which corrective action is warranted.

If you want to report or discuss confidentially any instance of misconduct, fraud, waste, abuse, or mismanagement, please contact the Office of Inspector General.

Telephone:

The Inspector General's HOTLINE
1-800-303-9737

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

Web:

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

Or write:

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