Description of document:	Eight (8) Pension Benefit Guaranty Corporation (PBGC) Inspector General (OIG) Reports, 2006-2008
Requested date:	22-May-2016
Released date:	30-September-2016
Posted date:	17-October-2016
Source of document:	Disclosure Officer Pension Benefit Guaranty Corporation 1200 K Street, N.W., Suite 11101 Washington, D.C. 20005 Fax: (202) 326-404 Email disclosure@pbgc.gov FOIAonline

PBGC
Protecting America's Pensions
Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

PBGC 2016-002653

September 30, 2016

Re: Request for Office of Inspector General Reports

I am responding to your request, dated May 22, 2016, to the Pension Benefit Guaranty Corporation (PBGC). You requested records pertaining to the functions of the PBGC Office of the Inspector General (OIG) and you agreed to pay $25.00 in fees. Specifically, you requested the following OIG reports:

1. Incurred Cost Audit of PBGC Contractor for Systems Development Work, January 2006;
2. Audit of PBGC Contractor for Actuarial Services, January 2006;
3. Agreed-Upon Procedures Report on PBGC Actuarial Contractor, January 2006;
4. Procurement Cycle Performance Audit Report, March 2006;
5. Incurred Cost Audit of PBGC Contractor, September 2006;
6. Report on PBGC's Administration of Contractor, December 2007;
7. Agreed-Upon Procedures for Incurred Cost Audit of PBGC Contractor, September 2008; and
8. Audit of the PBGC's Fiscal Year 2008 and 2007 Special-Purpose Financial Statements, November 2008.

Your request for information was processed in accordance with the Freedom of Information Act (FOIA) and PBGC's implementing regulation. Pursuant to your request, the PBGC's OIG conducted a search of their files, and located the eight reports you requested consisting of **115 pages.** It was necessary to withhold portions of commercial or financial information and personal privacy information (i.e. names) from the aforementioned records. We relied on two exemptions of the FOIA to withhold this information.

The first applicable exemption, 5 U.S.C. §552(b)(4), permits the exemption from disclosure of matters that are "trade secrets and commercial or financial information obtained from a person and privileged or confidential." The records you have requested contain "commercial or financial information" within the meaning of the above-cited statutory language and the PBGCs regulation 29 C.F.R. §4901.21(b)(2) and, therefore, The Disclosure Officer has determined that these records are exempt from disclosure.

The second applicable exemption, 5 U.S.C. § 552(b)(6), exempts from required public disclosure, "personnel and medical files and similar files the disclosure of which would constitute a clearly unwarranted invasion of personal privacy." Some of the records you have requested contain "similar files" within the meaning of the above cited statutory language and the PBGC implementing regulation (29 C.F.R. § 4901.21(b)(4)). In applying Exemption 6, a balancing test was conducted, weighing the privacy interests of the individuals named in a document against the public interest in disclosure of the information. The public interest in disclosure is one that "sheds light on an agency's performance of its statutory duties." *Dep't of Justice v. Reporters Committee*, 489 U.S. 749, 773 (1989). The Disclosure Officer has determined that disclosure of this information would constitute a clearly unwarranted invasion of an individual's personal privacy.

Since this constitutes a partial denial of your records request, I am providing you your administrative appeal rights in the event you wish to avail yourself of this process. The FOIA provides at 5 U.S.C. § 552(a)(6)(A)(i) (2014) amended by FOIA Improvement Act of 2016, Pub. L. No. 114-185, 130 Stat. 538 that if a disclosure request is denied in whole or in part by the Disclosure Officer, the requester may file a written appeal within 90 days from the date of the denial or, if later (in the case of a partial denial), 90 days from the date the requester receives the disclosed material. The PBGC's FOIA regulation provides at 29 C.F.R. § 4901.15 (2015) that the appeal shall state the grounds for appeal and any supporting statements or arguments, and shall be addressed to the General Counsel, Attention: Disclosure Division, Pension Benefit Guaranty Corporation, 1200 K Street, N.W., Washington, D.C. 20005. To expedite processing, the words "FOIA Appeal" should appear on the letter and prominently on the envelope.

In the alternative, you may contact the Disclosure Division's Public Liaison at (202)326-4040 for further assistance and to discuss any aspect of your request. You also have the option to contact the Office of Government Information Services (OGIS) at the National Archives and Records Administration to inquire about the FOIA mediation services they offer. The contact information for OGIS is as follows: Office of Government Information Services, National Archives and Records Administration, 8601 Adelphi Road-OGIS, College Park, Maryland 20740-6001; e-mail at ogis@nara.gov; telephone at 202-741-5770; toll free at 1-877-684-6448; or facsimile at 202-741-5769.

This completes processing of your request. Your request has been categorized as "commercial." Commercial requesters are assessed search, review, and duplication fees. We have not assessed any search fees.[1] Since the information is being provided in a digital format, the total cost for duplication and review resulted in an amount below the PBGC's nominal threshold of $25.00. As such, there are no fees associated with your request.

For future requests for PBGC records, you may submit your request by accessing FOIAonline, our electronic FOIA processing system, at https://foiaonline.regulations.gov, or via our agency's website at http://www.pbgc.gov/about/pg/footer/foia.html.

Sincerely,

Michelle Y. Chase

Michelle Y. Chase
Government Information Specialist

Enclosure (CD)

[1] The Open Government Act precludes an agency from charging search fees to a FOIA requester if the agency does not meet the twenty-day statutory time limit for processing FOIA requests. As such, all associated fees have been waived.

Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

Advanced Technology Systems, Inc.

Audit of Incurred Costs under Contract No. PBGC01-CT-02-0630 and Contract No. PBGC01-CT-02-0641 for the Fiscal Period ended October 31, 2003

January 13, 2006

2006-4/CA-0022

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

January 13, 2006

MEMORANDUM

TO: Robert Herting, Contracting Officer
Procurement Department

FROM: Luther Atkins Luther Atkins
Assistant Inspector General for Audit

SUBJECT: DCAA Report No. 6141-2003B10100020 on Audit of Advanced Technology Systems Inc. Incurred Cost for Fiscal Year Ended October 31, 2003 for Contract No. PBGC01-CT-02-0630 and Contract No. PBGC01-CT-02-0641.

This memorandum transmits report no. 2006-4/CA-0022 prepared by the Defense Contract Audit Agency (DCAA) at the request of the Office of Inspector General (OIG). During the third quarter of 2005, DCAA determined the allowability of direct and indirect costs, and established audit determined indirect costs rates for November 1, 2002 through October 31, 2003 for Contract No. PBGC01-CT-02-0630 and Contract No. PBGC01-CT-02-0641. The procedures performed and results are discussed in the attached report.

The transmittal of this report was delayed because we did not receive a final draft from DCAA until late December 2005.

PBGC contracted with ATS to provide systems administration support, sustaining engineering services, and project support for the Participant Application Maintenance Team (02-0630), and for software development services for Participant Records Information Systems Management (02-0641).

DCAA's report questions $42,687 of the $1,197,236 billed for Fiscal Period ending October 31, 2003 for the following reason:

- Contract No. PBGC01-CT-02-0641 exceeded the 51.54% indirect ceiling rate of direct labor.

The report states the contractor concurred with the audit results. We recommend corrective action including initiating necessary collection actions **(PD-59)**.

Attachment

cc: Stephen Barber, Chief Administrative Officer
Martin Boehm, Director, Controls & Contracts Review Department

DEFENSE CONTRACT AUDIT AGENCY

AUDIT REPORT NO. 6141-2003B10100020

September 23, 2005

PREPARED FOR: Administrative Contracting Officer
DCMA Virginia
ATTN: Kathleen Gerdes
10500 Battleview Parkway, Suite 200
Manassas, VA 20109-2362

PREPARED BY: DCAA Baltimore Branch Office
8441 Belair Road, Suite 102
Baltimore, MD 21236-3024
Telephone No. (410) 962-3857
FAX No. (410) 962-9976
E-mail Address dcaa-fao6141@dcaa.mil

SUBJECT: Report on Audit of Incurred Cost for Fiscal Year Ended October 31, 2003

REFERENCE: 06141/820.5/dkg

CONTRACTOR: Advanced Technology Systems, Inc. (1S558)
7915 Jones Branch Drive
McLean, VA 22102

REPORT RELEASE RESTRICTIONS: See Page 4

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SUBJECT OF AUDIT

We examined the Advanced Technology Systems (ATS) certified final indirect costs rate proposal and related books and records for reimbursement of FY 2003 incurred costs. The purpose of the examination was to determine allowability of direct and indirect costs and establish audit determined indirect cost rates for November 1, 2002 through October 31, 2003. The proposed rates apply primarily to the flexibly priced contracts listed in Exhibit B. A copy of ATS's Certificate of Final Indirect Costs, dated July 22, 2004, is included as Appendix 1 to the report.

The proposal is the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free of material misstatement. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist.

We evaluated the proposal using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR);
- Defense FAR Supplement (DFARS); and
- Contract Terms.

We have not specifically examined ATS's accounting system and its related internal controls (see Contractor Organization and Systems section). The scope of our examination reflects our assessment of control risk and includes tests of compliance with applicable laws and regulations. We believe our examination provides a reasonable basis for our opinion.

The concurrent verification of labor was omitted in this examination.

RESULTS OF AUDIT

Indirect Rates: In our opinion, the contractor's indirect rates for FY 2003 are acceptable as adjusted by our examination. The examination results and recommendations are presented below. The enclosed Indirect Cost Rate Agreement documents the contractor's concurrence with our findings and recommendations.

Proposed, Audit Determined and Questioned Expense Pools, Allocation Bases and Indirect Rates for FY 2003

Indirect Category		Proposed Indirect Expense Pool	Audited Determined Indirect Expense Pool	Questioned Indirect Expense Pool	Proposed/ Audit Deter. Base	Ref.
O/H Div 3 ATS	(a)	$5,403,373	$5,403,373	$-	$14,822,328	
O/H Div 3 Client	(a)	1,860,253	1,860,253	-	16,382,371	
O/H Div 6 ATS	(a)	438,330	438,330	-	1,805,821	
O/H Div 6 Client	(a)	1,656,119	1,656,119	-	16,546,992	
G&A	(b)	7,437,328	7,045,442	391,886	79,311,877	Exh. A

Indirect Category		Proposed Indirect Expense Rate	Audited Determined Indirect Expense Rate	Questioned Indirect Expense Rate	Ref.
O/H Div 3 ATS	(a)	36.45%	36.45%	-%	
O/H Div 3 Client	(a)	11.36%	11.36%	-%	
O/H Div 6 ATS	(a)	24.27%	24.27%	-%	
O/H Div 6 Client	(a)	10.01%	10.01%	-%	
G&A	(b)	9.38%	8.88%	0.50%	Exh. A

<u>Allocation Bases:</u>
(a) Total direct labor dollars plus Fringe
(b) Total cost input excluding G&A costs

Direct Costs: In our opinion, claimed direct costs are acceptable and are provisionally approved, pending final acceptance. Final acceptance of amounts proposed under Government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

Penalties for Unallowable Costs: Indirect costs questioned in this examination are believed to be subject to the penalties provided in FAR 42.709. Our recommendations for each questioned item are included in the Notes to Exhibit A and their supporting schedules. Affected contracts are identified in Appendix 2. Our recommendations concerning the interest to be recovered on unallowable costs paid will be furnished when we have received your determination on penalties to be assessed.

Government Participation in Allocation Base			
	Cost Type & T&M	Fixed, and Commercial	Total
Overhead Div 3 ATS	68.74%	31.26%	100%
Overhead Div 3 Client	39.62%	60.38%	100%
Overhead Div 6 ATS	5.56%	94.44%	100%
Overhead Div 6 Client	42.23%	57.77%	100%
G&A	76.96%	23.04%	100%

Cumulative Allowable Cost Worksheet (CACWS): The costs noted on the Schedule of Cumulative Allowable Costs in Appendix 2 represent costs that are considered allowable under the listed contracts and are, therefore, reimbursable. For those contracts identified as "Ready to Close," the information on the CACWS should be used to close out contracts. Individual contract audit closing statements will only be issued if requested by the ACO.

We discussed the results of our review with Mr. John Cherundolo, Controller and Mr. Greg Smith, Cost Accounting Manger, in an exit conference held on September 19, 2005. The contractor concurred to our audit results (see Indirect Cost Rate Agreement, Appendix 2). We requested a release statement, see Appendix 3.

Pension Benefit Guaranty Corporation

Office of Inspector General

Agreed-Upon Procedures Report

Palmer & Cay Consulting Group

Report on Agreed-Upon Procedures for Costs Incurred under Contract No. PBGC01-CT-00-0602 for the Fiscal Years ended September 30, 2003 and 2004

Notice: Distribution of this Report is Restricted

This report may contain proprietary information subject to the requirements of 18 U.S.C. 1905 or 5 U.S.C. 552a. This report is issued by the Office of Inspector General (OIG) for distribution to the Contracting Officer, Procurement Department of the Pension Benefit Guaranty Corporation (PBGC) and other pertinent officials. This report should not be released to the public or other parties without the consent of the OIG after consultation with PBGC's Contracting Officer. The information in this report should not be used for other than intended purposes without first discussing its applicability with the OIG.

January 13, 2006

2006-2/CA-0011

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

January 13, 2006

MEMORANDUM

TO: Robert Herting, Contracting Officer
Procurement Department

FROM: Luther Atkins Luther Atkins
Assistant Inspector General for Audit

SUBJECT: Agreed-upon Procedures Report for Costs Incurred by Palmer & Cay Consulting Group under Contract No. PBGC01-CT-00-0602 for Fiscal Years ended September 30, 2003 and 2004.

This memorandum transmits report no. 2006-2/CA-0011 prepared by Ollie Green & Company CPAs (OG&C) at the request of the Office of Inspector General (OIG). During the fourth quarter of 2005, OG&C applied agreed-upon procedures to assist OIG in evaluating whether costs incurred by Palmer & Cay Consulting Group (Palmer & Cay) in the fiscal years ending September 30, 2003 and 2004 under Contract No. PBGC01-CT-00-0602 were allowable, reasonable, supported and consistent with contractual provisions. The procedures performed and results are discussed in the attached report.

OG&C's report questions $2,150,320.97 in costs related to the following issues:

- Adequate support documentation for labor hours was not maintained for three current employees.
- Adequate support documentation for labor hours was not maintained for 14 separated employees.
- Work hours for non-work activities were not reduced for one employee.

The report recommends corrective actions including your determination of the allowability of the questioned costs and initiation of necessary collection actions. OIG's recommendation tracking numbers are included in OG&C's report. Both OIG and OG&C are available to discuss the report's findings and provide additional documentation.

Attachment

cc: Stephen Barber, Chief Administrative Officer
Martin Boehm, Director, Controls & Contracts Review Department

Office of Inspector General
Pension Benefit Guaranty Corporation
Agreed-Upon Procedures
For Costs Incurred by
Palmer & Cay Consulting Group
Under Contract No. PBGC01-CT-00-0602
For the Fiscal Years ended
September 30, 2003 and 2004

This report may contain proprietary information subject to the requirements of 18 U.S.C. 1905 or 4 U.S.C. 552a. This report is issued to the Office of Inspector General (OIG) of the Pension Benefit Guaranty Corporation (PBGC) for future distribution to PBGC's Procurement Department. The report should not be released to the public or other parties without the consent of the OIG after consultation with the Director of the Procurement Department. The information in this report should not be used for other than intended purposes without first discussing its applicability with the OIG.

OLLIE GREEN & COMPANY, CPA's
Louisville, Kentucky

Independent Accountants' Report
On Applying Agreed-Upon Procedures
For Costs Incurred by
Palmer & Cay Consulting Group
Under Contract no. PBGC01-CT-00-0602
For the Fiscal Years Ended
September 30, 2003 and 2004

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OLLIE GREEN & COMPANY

CPA℠ The CPA. Never Underestimate The Value.™

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Independent Accountants' Report On Applying Agreed-Upon Procedures For Costs Incurred by Palmer & Cay Consulting Group Under Contract no. PBGC01-CT-00-0602 For the Fiscal Years Ended September 30, 2003 and 2004

To the Inspector General of the
Pension Benefit Guaranty Corporation (PBGC)

We have performed the procedures enumerated on page 4, which were agreed to by your office solely to assist you in evaluating whether costs incurred by Palmer & Cay Consulting Group (Palmer & Cay) under contract no. PBGC01-CT-00-0602 were allowable, reasonable, supported and consistent with contractual provisions for fiscal years (FYs) ended September 30, 2003 and 2004. This agreed-upon procedures engagement was performed in accordance with attestations standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards,* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described on page 4 either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the incurred costs of Palmer & Cay. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of PBGC's Office of Inspector General(OIG), PBGC's Procurement Department and Palmer & Cay and is not intended to be and should not be used by anyone other than these specified parties.

Ollie Green

Ollie Green & Co., CPAs
Certified Public Accountants

Louisville, Kentucky
October 14, 2005

Executive Summary

We have applied certain agreed-upon procedures solely to assist the OIG in evaluating whether costs incurred by Palmer & Cay in conducting actuarial valuation services for the PBGC were allowable, reasonable, substantiated and consistent with contractual provisions for the FYs ended September 30, 2003 and 2004. Our approach to this engagement entailed selecting a four month sample from FY 2003 and a three month sample from FY 2004 and assessing the accuracy, reasonableness and allowability of direct labor charges and other direct costs billed to PBGC for FYs 2003 and 2004.

Based on the application of the agreed-upon procedures enumerated on page 4, we have questioned costs relating to the following issues:

- Palmer & Cay did not maintain contemporaneous time support or other adequate support documentation for labor hour entries made in it's on-line timekeeping system (Portera) for three current employees for FYs 2003 and 2004.

- Palmer & Cay did not maintain contemporaneous time support or other adequate support documentation for labor hour entries made in Portera for 14 separated employees for FYs 2003 and 2004.

- Palmer & Cay did not reduce one employee's workdays for non-work activities for FYs 2003 and 2004.

Details, including quantification of the questioned costs, are discussed in the Findings and Recommendations section of our report. The contractor's response and Independent Accountants' comments on the contractor's response are also included in the Findings and Recommendations section.

Background

The Pension Benefit Guaranty Corporation was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, 29 U.S.C. §§ 1301-1461, ERISA §§ 4001-4402, to insure the pension benefits of participants in certain defined benefit pension plans. PBGC protects the pensions of more than 44 million Americans in approximately 31,000 private single-employer and 1,600 multi-employer defined benefit plans.

PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for the plans.

PBGC's primary responsibility is to collect premiums and assume administration of under-funded plans that either terminate or become insolvent. In the event of plan termination, PBGC assumes control of plan assets, calculates benefit amounts, and pays plan participants a guaranteed benefit. PBGC's work is performed at its Washington, DC headquarters and 11 contract offices located throughout the country, known as field benefit administration (FBA) offices. To carry out its operations, PBGC relies heavily on the services of contractors whose headquarters and field employees account for over half of the workforce involved in processing PBGC's workloads.

PBGC entered into a labor hour contract with Palmer & Cay to conduct actuarial valuation and other related actuarial services. The initial contract provides for personnel and related services to include determining and valuing plan provided benefits, determining, valuing and administering PBGC-payable benefits, developing computer software to assist in performing and developing training to assist in performing. At the end of FY 2004, the contract had been amended 25 times and obligations for all contract years totaled $12,346,543. Palmer & Cay billed PBGC approximately $2.3 million and $3.6 million for FYs 2003 and 2004 respectively. (Exhibit 1, <u>Schedule of Invoices Billed for FYs 2003 and 2004).</u>

Scope

We have applied certain agreed-upon procedures solely to assist the OIG in evaluating whether costs incurred by Palmer & Cay in conducting actuarial valuation services for PBGC were allowable, reasonable, supported and consistent with contractual provisions. This agreed-upon procedure engagement covered the FYs ended September 30, 2003 and 2004 and was performed in accordance with attestations standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards,* issued by the Comptroller General of the United States. It is understood that this report is solely for the OIG's information and is not to be distributed for any other purpose or to anyone who is not affiliated with PBGC's OIG or PBGC's Procurement Department without notification to us.

The following agreed-upon procedures were performed:

1. Obtained and reviewed copies of contracts, amendments, invoices and time records provided by Palmer & Cay and PBGC OIG for FYs 2003 and 2004.

2. Scheduled all personnel and labor hours selected in our seven month sample (four months for FY 2003 and three months for FY 2004) and evaluated the accuracy of billed labor hours.

3. Compared the scheduled labor hours, by employee, selected in the sample months and tested to time records provided by Palmer & Cay and quantified discrepancies.

4. Scheduled and quantified all non-work related activities billed during FYs 2003 and 2004 and calculated potential unallowable costs.

5. Obtained copies of invoices for other direct costs billed to PBGC in our sample months and examined for support documentation and allowability.

6. Obtained copies of personnel files, and other documentation of employees billed to the PBGC contract for the sample months and verified experience and education required by the contract.

The total incurred costs billed by Palmer & Cay to PBGC for the seven sample months reviewed were $1,946,961.67 (Exhibit 2 – Schedule of Invoices Sampled for FYs 2003 and 2004). The total questioned costs resulting from the application of our agreed-upon procedures is $2,150,320.97 (Exhibit 6 – Schedule of Total Questioned Costs for FYs 2003 and 2004). These questioned costs represent 36 percent of the total incurred costs of $5,938,923.34 billed to PBGC for FYs 2003 and 2004 (Exhibit 1 – Schedule of Invoices Billed for FYs 2003 and 2004).

Findings And Recommendations

1. Contemporaneous time records were not maintained for three employees

Palmer & Cay did not maintain contemporaneous time support or other adequate documentation for three employees with labor hours billed to the PBGC contract for FYs 2003 and 2004. Section G.9.G000-0015 of the contract states that, " As the amounts billed by the contractor are subject to audit, the contractor shall maintain documentation supporting the amounts billed in accordance with Federal Acquisition Regulations (FAR) 4.703." The three employees cited in our finding indicated that documentation supporting their online time charge entries was periodically purged and that no documentation for FYs 2003 and 2004 had been retained for our review. This departure from contractual requirements may have resulted in erroneous labor hour billings to the PBGC.

Palmer & Cay employees used an online timekeeping system (Portera) to electronically record their labor hours billed to PBGC contracts. This system allowed employees to log in with a password and enter their labor hours from any computer terminal. Therefore, employees could enter their time charges from home, work or any other location. Based on our interviews with management and employees and our review of Portera reports, we established that most employees charging time to the PBGC contract, entered their time charges on the 15th and the 30th of each month while others entered their time either weekly or monthly. Four employees entered their time on a daily basis. The three employees cited above entered their time on the 15th and the 30th of each month but retained no documentation (e.g. calendars, day planners, monthly planners, notes) to support their Portera entries for FYs 2003 and 2004. Because of this documentation retention problem, we could not verify the accuracy of the Portera entries made by the aforementioned employees. We calculated and questioned the amounts PBGC was billed for the three cited employees for the FYs 2003 and 2004. Exhibits 3-1 and 3-2, Schedule of Billings for Current Employees with Improperly Supported Charges, shows that PBGC was billed $247,368.25 for FY 2003 and $465,535.93 for FY 2004 for the services of these three employees.

Recommendations

We recommend the following corrective actions:

> PBGC's Contracting Officer should instruct Palmer & Cay to comply with the contract's provision to maintain documentation supporting amounts billed in accordance with FAR 4. 703. PD 50
>
> PBGC's Contracting Officer should review the improperly supported billings of $247,368.25 for FY 2003 and $465,535.93 for FY 2004 for the three employees cited to determine the allowability of these billings and initiate necessary collection actions, if applicable. PD 51

2. Contemporaneous time records were not maintained for 14 separated employees

Palmer & Cay did not maintain contemporaneous time support for 14 separated employees with labor hours billed to the PBGC contract during FYs 2003 and 2004. Section G.9.G000-0015 of the contract states that "As the amounts billed by the contractor are subject to audit, the contractor shall maintain documentation supporting the amounts billed in accordance with FAR 4. 703." Palmer & Cay management stated that support documentation for Portera entries made by separated employees was not retained. Because of this documentation retention problem, we could not verify the accuracy of the Portera entries made by the 14 separated employees cited in our finding. This departure from contractual requirements may have resulted in erroneous labor hour billings to the PBGC. We calculated and questioned the amounts PBGC was billed for the 14 separated employees cited for FYs 2003 and 2004. Exhibits 4-1 and 4-2, Schedule of Billings for Separated Employees with Improperly Supported Charges, shows that PBGC was billed $721,260.25 for FY 2003 and $667,469.54 for FY 2004 for the services of these 14 employees.

We recommend the following corrective actions:

> PBGC's Contracting Officer should instruct Palmer & Cay to comply with the contract's provision to maintain documentation supporting amounts billed in accordance with FAR 4. 703. PD 52
>
> PBGC's Contracting Officer should review the improperly supported billings of $721,260.25 for FY 2003 and $667,469.54 for FY 2004 for the 14 separated employees to determine the allowability of these billings and initiate necessary collection actions, if applicable. PD 53

3. Non-work activities billed by one Palmer & Cay employee

One Palmer & Cay employee billed PBGC for non-work activities (lunch period). The FAR states that "the Government is to pay only for direct labor hours performed. In addition, costs should be reasonable and allocable." The employee cited in our finding stated that she charged time to the PBGC contract during lunch period because she eats her lunch while she works. All other Palmer & Cay employees appropriately accounted for their daily lunch period. This departure from contractual requirements may have resulted in overstated labor hour billings to the PBGC.

> FAR 52.232-7 states, in part, that the Government will pay the Contractor (a)(1) the amounts computed by multiplying the appropriate hourly rates prescribed in the Schedule by the number of direct labor hours performed.
>
> FAR 31.201-3 (a) states, in part, that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.
>
> FAR 31.201-4 states, in part, that a cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefit received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it is incurred specifically for the contract.

Our estimated amounts of questioned costs for FYs 2003 ($22,848.00) and 2004 ($25,839.00) were calculated using a one hour lunch period, times the number of billed days, times the employee's billing rate. See Exhibit 5, (Schedule of Estimated Amounts Billed for Non-Work Activities for FYs 2003 and 2004).

Recommendations

We recommend the following corrective actions:

PBGC's Contracting Officer should review the Schedule of Estimated Amounts Billed for Non-Work Activities for FYs 2003 and 2004 to determine the allowability of these billed amounts and initiate necessary collection actions. PD 54

PBGC's Contracting Officer should consider adding a requirement to the contract that Palmer & Cay employees who work five hours or more must take at least a 30-minute lunch period which will not be billable to the contract. PD 55

Contractor's Response

Thank you for the opportunity to provide comments on your initial draft of your report to the Office of Inspector General Pension Benefit Guaranty Corporation Agreed-Upon Procedures for Costs Incurred by Palmer & Cay Consulting Group under Contract No. PBGC01-CT-00-0602 for the fiscal years ended September 30, 2003 and 2004. The following are comments we wish to include in your final report.

Palmer & Cay's Billing Process

Palmer & Cay believes a more complete description of our billing process would give a reader of the report a better context in which to review your findings and recommendations on page 5 of your report.

Palmer & Cay's work for PBGC begins with the issuance of a work assignment order form. The work assignment form (see Attachment I for an example) consists of a description of the work required and the number of hours of work required for each labor category. Palmer & Cay's billing supervisor for all work assignments under Contract No. PBGC01-CT-00-0602, prepares the work assignment and forwards it to the PBGC actuary for approval. The PBGC actuary then forwards the approved work assignment to the PBGC contract technical representative (COTR) for final approval. Once final approval is received, work begins on the project.

As Palmer & Cay personnel work on various projects they are required to keep track of their time on each project on a daily basis. They are required to track their time on projects under this PBGC contract, as well as their work for clients other than the PBGC, and their other non-billable time (paid time off, training, educational meetings, etc.). Each employee enters their time into our web based billing system called Portera. Portera requires the employee to enter the time spent on each project (both billable and non-billable) for each day. It requires entries for the 1st through the 15th of each month and the 16th through the end of each month. Once the timesheet is completed, prior to preparation for invoicing at the end of the month, each employee is required to submit the two timesheets for approval. Once the timesheet has been submitted, Portera sends an email notifying Palmer & Cay's Billing Supervisor under the contract, alerting him that an employee has time billed to a project. A separate email is sent for each work assignment project for that period that an employee has billed time. Our Billing

Supervisor then reviews the time billed for that project. At that time if he sees any problem with the submission, for example more time than expected on a given project, he consults with the employee and/or the work assignment project manager. Once any concerns are reconciled, the Billing Supervisor approves the final submission to Portera. Once an employee has submitted their final timesheet for the month, they print a paper copy (see Attachment II for an example), sign and date it, and deliver it to our Billing Manager for the contract. It is important to note that the paper copy shows the time spent on each project by the day for each period of the month. These paper timesheets are kept on file.

The next step in the process is the generation of the invoice to PBGC. For each work assignment (see Attachment III for an example), the invoice shows the amount of time per employee worked on that project, the billing rate for that labor category, the total charge for the month, the total charges to date, and the budgeted costs remaining. The invoice also shows the budgeted hours for the project by labor category, the actual hours worked to date, and the remaining hours for each labor category. The individual work assignment summaries along with a total contract summary are sent to the PBGC for payment.

Once received at the PBGC the individual work assignment summaries are distributed to the PBGC actuary for approval. Once they have reviewed and approved the individual summaries they are sent to the COTR for final approval. The COTR then submits the invoice for payment.

<u>The Audit Findings</u>

Nos. 1 and 2.

The audit findings state that paper records were not available to support time entries into the Portera system for certain active and certain terminated employees, and references Federal Acquisition Regulations (FAR) 4.703 as the basis for the finding. We think the findings are mitigated by the following points:

- Each timesheet is reviewed and approved by at least two Palmer & Cay employees, the Billing Supervisor and the Billing Manager. The Billing Supervisor has substantial experience (over 14 years) in working with PBGC contracts, using similar timekeeping practices, and has a measured sense of what is reasonable and what is not when it comes to billing time for PBCG related projects.

- Each individual work assignment billing summary is reviewed and approved by two PBGC personnel, the actuary and COTR. At no time did any PBGC personnel ever question the hours worked on an individual work assignment during this contract.

- To our knowledge, all the other approved PBGC actuarial contractors are using similar on-line timekeeping procedures.

- The COTR and prior COTR worked for contractors prior to their work with the PBGC, and used similar timekeeping systems where issues with documentation requirements under FAR 4.703 were never raised.

No. 3.

The audit findings also state that one employee billed the PBGC for non-work activities (lunch period).

- The employee mentioned in your findings works from her home in Houston, Texas. We believe her response to the interview regarding her lunch breaks was misunderstood.

Because she works from home, on occasion she eats her lunch while working. She works directly with PBGC personnel and sometimes due to the time difference in Houston and the need to get projects finished, she works through the standard lunch period. In return for working while she eats, her work day is shortened by one hour.

The Recommendations

Palmer & Cay has implemented the following procedures in response to the audit recommendations:

- Since the time of the audit, Palmer & Cay has implemented new procedures to further refine our time-keeping practices in accordance with FAR 4.703. All employees are now required to keep a daily calendar with written entries showing the daily time they work on each project, a short description of the work performed, the start and end times for each day worked, and the start and end times of their daily lunch break. Copies of each calendar will be maintained to support their Portera entries.

- As of December 1, 2005 PBGC issued paper timesheets for each employee to use to track their individual time. At the end of each month, a copy of the signed timesheets will be included with our monthly invoice.

- Since the audit was conducted, Palmer & Cay has informed all employees that a lunch period of at least 30 minutes each day is required of all employees working under this contract.

In conclusion, we believe each of our invoices accurately represents the time worked on each project for all our employees. The total time reflected on each invoice is supported by reasonable timekeeping practices that were consistent with both industry practice and PBGC standards. We are confident that the "allowabilty" of all billings would be sustained upon any further inquiry. As the high quality work product provided to the PBGC over the last five years demonstrates our commitment to technical excellence, so too are we committed to improving our timekeeping practices so as to avoid questions of this kind in future audits.

Once again, we would like to thank you for the opportunity to provide responses to the audit findings and recommendations. We look forward to receiving your final report. If I can be of any assistance, please call me at 703-464-8608.

Independent Accountants' Comments on Contractor's Response

Finding 1- Unsupported Time Charges Billed – Current Employees

We reaffirm our position. The three active employees cited in finding one above did not retain adequate contemporaneous support documentation for Portera time charges billed to the PBGC contract as required by FAR 4.703. Because these employees entered their time on the 15th and the 30th of each month, contemporaneous support documentation (e.g. calendars, day planners, monthly planners, notes) was necessary to enable us to validate the accuracy of employee periodic time charges. All other employees sampled either entered their time daily or provided sufficient support documentation for Portera time charges billed to the PBGC contract.

The aforementioned active employees cited in our report stated that support documentation for FYs 2003 and 2004 had been purged and was no longer available for our review. FAR 4.703 states that the "contractor shall make available records, which include books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form, and other supporting evidence to satisfy contract negotiations, administration and audit requirements of the contracting agencies and the Comptroller General." The FAR also states that this information/documentation should be retained for 3 years after final payment. If the contractor can now provide other mitigating information/documentation to support its claim, it should be presented to the contracting officer during the settlement phase of this Agreed-Upon Procedure engagement.

Finding 2- Unsupported Time Charges Billed – Separated Employees

We reaffirm our position. Management did not retain adequate contemporaneous support documentation for Portera time charges billed to the PBGC contract by 14 separated employees as required by FAR 4.703 for FYs 2003 and 2004. FAR 4.703 states that the "contractor shall make available records, which include books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form, and other supporting evidence to satisfy contract negotiations, administration and audit requirements of the contracting agencies and the Comptroller General." The FAR also states that this information/documentation should be retained for 3 years after final payment. If the contractor can now provide other mitigating information/documentation to support its claim, it should be presented to the contracting officer during the settlement phase of this Agreed-Upon Procedure engagement.

Finding 3 – Non-work Activities Billed

We re-affirm our position. The employee cited in finding three stated that she charged time to the PBGC contract during her lunch period because she eats her lunch while she works. This information was gathered through interview of the employee and was not viewed as a problem by the employee at the time of the interview. Based on information documented during our interview, the employee considered this practice as allowable activity. FAR 52.232-7(a)(1) states, in part, that the Government will pay the Contractor the amounts computed by multiplying the appropriate hourly rates prescribed in the Schedule by the number of direct labor hours performed. If the contractor can now provide other mitigating information/documentation to support its claim, it should be presented to the contracting officer during the settlement phase of this Agreed-Upon Procedure engagement.

Pension Benefit Guaranty Corporation

Office of Inspector General

Agreed-Upon Procedures Report

Slabaugh, Morgan, White & Associates

Report on Agreed-Upon Procedures for Costs Incurred under
Contract No. PBGC01-CT-99-0581
for the Fiscal Years ended September 30, 2003 and 2004

Notice: Distribution of this Report is Restricted

This report may contain proprietary information subject to the requirements of 18 U.S.C. 1905 or 5 U.S.C. 552a. This report is issued by the Office of Inspector General (OIG) for distribution to the Contracting Officer, Procurement Department of the Pension Benefit Guaranty Corporation (PBGC) and other pertinent officials. This report should not be released to the public or other parties without the consent of the OIG after consultation with PBGC's Contracting Officer. The information in this report should not be used for other than intended purposes without first discussing its applicability with the OIG.

January 13, 2006

2006-3/CA-0011

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

January 13, 2006

MEMORANDUM

TO: Robert Herting, Contracting Officer
Procurement Department

FROM: Luther Atkins Luther Atkins
Assistant Inspector General for Audit

SUBJECT: Agreed-upon Procedures Report for Costs Incurred by Slabaugh, Morgan, White & Associates under Contract No. PBGC01-CT-99-0581 for Fiscal Years ended September 30, 2003 and 2004.

This memorandum transmits report no. 2006-3/CA-0011 prepared by Ollie Green & Company CPAs (OG&C) at the request of the Office of Inspector General (OIG). During the fourth quarter of 2005, OG&C applied agreed-upon procedures to assist OIG in evaluating whether costs incurred by Slabaugh, Morgan, White & Associates (Slabaugh) in the fiscal years ending September 30, 2003 and 2004 under Contract No. PBGC01-CT-99-0581 were allowable, reasonable, supported and consistent with contractual provisions. The procedures performed and results are discussed in the attached report.

OG&C's report questions $1,273,660.50 in costs related to the following issues:

- Adequate support documentation for labor hours was not maintained for two current employees.
- Adequate support documentation for labor hours was not maintained for 11 separated employees.

The report recommends corrective actions including your determination of the allowability of the questioned costs and initiation of necessary collection actions. OIG's recommendation tracking numbers are included in OG&C's report. Both OIG and OG&C are available to discuss the report's findings and provide additional documentation.

Attachment

cc: Stephen Barber, Chief Administrative Officer
Martin Boehm, Director, Controls & Contracts Review Department

Office of Inspector General
Pension Benefit Guaranty Corporation
Agreed-Upon Procedures
For Costs Incurred by
Slabaugh, Morgan, White And Associates
Under Contract No. PBGC01-CT- 99- 0581
For the Fiscal Years ended
September 30, 2003 and 2004

OLLIE GREEN & COMPANY, CPA's
Louisville, Kentucky

Independent Accountants' Report
On Applying Agreed-Upon Procedures
For Costs Incurred by
Slabaugh, Morgan, White And Associates
Under Contract no. PBGC01-CT-99-0581
For the Fiscal Years Ended
September 30, 2003 and 2004

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Appendix 1 – Slabaugh, Morgan's Full Response to the Independent Accountants' Report

OLLIE GREEN & COMPANY

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Independent Accountants' Report
On Applying Agreed-Upon Procedures
For Costs Incurred by
Slabaugh, Morgan, White And Associates
Under Contract no. PBGC01-CT-99-0581
For the Fiscal Years Ended
September 30, 2003 and 2004

To the Inspector General of the
Pension Benefit Guaranty Corporation (PBGC)

We have performed the procedures enumerated on page 4, which were agreed to by your office solely to assist you in evaluating whether costs incurred by Slabaugh, Morgan, White and Associates (Slabaugh, Morgan) under contract no. PBGC01-CT-99-0581 were allowable, reasonable, supported and consistent with contractual provisions for fiscal years (FYs) ended September 30, 2003 and 2004. This agreed-upon procedures engagement was performed in accordance with attestations standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described on page 4 either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the incurred costs of Slabaugh, Morgan. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of PBGC's Office of Inspector General (OIG), PBGC's Procurement Department and Slabaugh, Morgan and is not intended to be and should not be used by anyone other than these specified parties.

Ollie Green

Ollie Green & Co., CPAs
Certified Public Accountants

Louisville, Kentucky
October 14, 2005

Executive Summary

We have applied certain agreed-upon procedures solely to assist the OIG in evaluating whether costs incurred by Slabaugh, Morgan in conducting appeals services for the PBGC were allowable, reasonable, substantiated and consistent with contractual provisions for the FYs ended September 30, 2003 and 2004. Our approach to this engagement entailed selecting a four month sample from FY 2003 and a six month sample from FY 2004 and assessing the accuracy, reasonableness and allowability of direct labor charges and other direct costs billed to PBGC for FYs 2003 and 2004.

Based on the application of the agreed-upon procedures enumerated on page 4, we have questioned costs relating to the following issues:

- Slabaugh, Morgan did not maintain contemporaneous time support or other adequate support documentation for labor hour entries made in its on-line timekeeping system (Portera) for two current employees for FYs 2003 and 2004.

- Slabaugh, Morgan did not maintain contemporaneous time support or other adequate support documentation for labor hour entries made in Portera for 11 separated employees for FYs 2003 and 2004.

Details, including quantification of the questioned costs, are discussed in the Findings and Recommendations section of our report. The contractor's response and Independent Accountants' comments on the contractor's response are also included in the Findings and Recommendations section.

Background

The Pension Benefit Guaranty Corporation was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, 29 U.S.C. §§ 1301-1461, ERISA §§ 4001-4402, to insure the pension benefits of participants in certain defined benefit pension plans. PBGC protects the pensions of more than 44 million Americans in approximately 31,000 private single-employer and 1,600 multi-employer defined benefit plans.

PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for the plans.

PBGC's primary responsibility is to collect premiums and assume administration of under-funded plans that either terminate or become insolvent. In the event of plan termination, PBGC assumes control of plan assets, calculates benefit amounts, and pays plan participants a guaranteed benefit. PBGC's work is performed at its Washington, DC headquarters and 11 contract offices located throughout the country, known as field benefit administration (FBA) offices. To carry out its operations, PBGC relies heavily on the services of contractors whose headquarters and field employees account for over half of the workforce involved in processing PBGC's workloads.

PBGC entered into a labor hour contract with Slabaugh, Morgan to conduct appeals and other related services. The initial contract provides for personnel and related services to include conducting reviews of PBGC benefit determinations and drafting appeal decisions of PBGC initial determinations of benefit eligibility or benefit amount under the single-employer plan termination insurance program. At the end of FY 2004, the contract had been amended numerous times and obligations for all contract years totaled $3,774,277.13. Slabaugh, Morgan billed PBGC approximately $1.0 million and $983.0 thousand for FYs 2003 and 2004 respectively. (Exhibit 1, Schedule of Invoices Billed for FYs 2003 and 2004).

Scope

We have applied certain agreed-upon procedures solely to assist the OIG in evaluating whether costs incurred by Slabaugh, Morgan in conducting appeals services for PBGC were allowable, reasonable, supported and consistent with contractual provisions. This agreed-upon procedure engagement covered the FYs ended September 30, 2003 and 2004 and was performed in accordance with attestations standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards,* issued by the Comptroller General of the United States. It is understood that this report is solely for the OIG's information and is not to be distributed for any other purpose or to anyone who is not affiliated with PBGC's OIG or PBGC's Procurement Department without notification to us.

The following agreed-upon procedures were performed:

1. Obtained and reviewed copies of contracts, amendments, invoices and time records provided by Slabaugh, Morgan and PBGC OIG for FYs 2003 and 2004.

2. Scheduled all personnel and labor hours selected in our 10 month sample (four months for FY 2003 and six months for FY 2004) and evaluated the accuracy of billed labor hours.

3. Compared the scheduled labor hours, by employee, selected in the sample months and tested to time records provided by Slabaugh, Morgan and quantified discrepancies.

4. Examined timekeeping and other documentation to determine whether non-work related activities were billed.

5. Obtained copies of invoices for other direct costs billed to PBGC in our sample months and examined for support documentation and allowability.

6. Obtained copies of personnel files, and other documentation of employees billed to the PBGC contract for the sample months and verified experience and education required by the contract.

The total incurred costs billed by Slabaugh, Morgan to PBGC for the 10 sample months reviewed were $721,368.54 (Exhibit 2 – Schedule of Invoices Sampled for FYs 2003 and 2004). The total questioned costs resulting from the application of our agreed-upon procedures is $1,273,660.50 (Exhibit 5– Schedule of Total Questioned Costs for FYs 2003 and 2004). These questioned costs represent 62 percent of the total incurred costs of $ 2,038,309.25 billed to PBGC for FYs 2003 and 2004 (Exhibit 1 – Schedule of Invoices Billed for FYs 2003 and 2004).

Findings And Recommendations

1. Contemporaneous time records were not maintained for two employees

Slabaugh, Morgan did not maintain contemporaneous time support or other adequate documentation for two employees with labor hours billed to the PBGC contract for FYs 2003 and 2004. Section G.12.G000-0015 of the contract states that, " As the amounts billed by the contractor are subject to audit, the contractor shall maintain documentation supporting the amounts billed in accordance with Federal Acquisition Regulations (FAR) 4.703." The two employees cited in our finding indicated that documentation supporting their online time charge entries was periodically purged and that no documentation for FYs 2003 and 2004 had been retained for our review. This departure from contractual requirements may have resulted in erroneous labor hour billings to the PBGC.

Slabaugh, Morgan employees used an online timekeeping system (Portera) to electronically record their labor hours billed to PBGC contracts. This system allowed employees to log in with a password and enter their labor hours from any computer terminal. Therefore, employees could enter their time charges from home, work or any other location. Based on our interviews with management and employees and our review of Portera reports, we established that most employees charging time to the PBGC contract, entered their time charges on the 15th and the 30th of each month while others entered their time either weekly or monthly. Four employees entered their time on a daily basis. The two employees cited above entered their time on the 15th and the 30th of each month but retained no documentation (e.g. calendars, day planners, monthly planners, notes) to support their Portera entries for FYs 2003 and 2004. Because of this documentation retention problem, we could not verify the accuracy of the Portera entries made by the aforementioned employees. We calculated and questioned the amounts PBGC was billed for the two cited employees for the FYs 2003 and 2004. Exhibits 3-1 and 3-2, Schedule of Billings for Current Employees with Improperly Supported Charges, shows that PBGC was billed $47,188.25 for FY 2003 and $42,247.00 for FY 2004 for the services of these two employees.

Recommendations

We recommend the following corrective actions:

PBGC's Contracting Officer should instruct Slabaugh, Morgan to comply with the contract's provision to maintain documentation supporting amounts billed in accordance with FAR 4. 703. PD 60

PBGC's Contracting Officer should review the improperly supported billings of $47,188.25 for FY 2003 and $42,247.00 for FY 2004 for the two employees cited to determine the allowability of these billings and initiate necessary collection actions, if applicable. PD 73

2. Contemporaneous time records were not maintained for 11 separated employees

Slabaugh, Morgan did not maintain contemporaneous time support for 11 separated employees with labor hours billed to the PBGC contract during FYs 2003 and 2004. Section G.12.G000-0015 of the contract states that "As the amounts billed by the contractor are subject to audit, the contractor shall maintain documentation supporting the amounts billed in accordance with FAR 4. 703." Slabaugh, Morgan management stated that support documentation for Portera entries made by separated employees was not retained. Because of this documentation retention problem, we could not verify the accuracy of the Portera entries made by the 11 separated employees cited in our finding. This departure from contractual requirements may have resulted in erroneous labor hour billings to the PBGC. We calculated and questioned the amounts PBGC was billed for the 11 separated employees cited for FYs 2003 and 2004. Exhibits 4-1 and 4-2, Schedule of Billings for Separated Employees with Improperly Supported Charges, shows that PBGC was billed $674,206.75 for FY 2003 and $510,018.50 for FY 2004 for the services of these 11 employees.

We recommend the following corrective actions:

PBGC's Contracting Officer should instruct Slabaugh, Morgan to comply with the contract's provision to maintain documentation supporting amounts billed in accordance with FAR 4. 703. PD 74

PBGC's Contracting Officer should review the improperly supported billings of $674,206.75 for FY 2003 and $510,018.50 for FY 2004 for the 11separated employees to determine the allowability of these billings and initiate necessary collection actions, if applicable. PD 75

Contractor's Response

Thank you for the opportunity to provide comments on your initial draft of your report to the Office of Inspector General Pension Benefit Guaranty Corporation Agreed-Upon Procedures for Costs Incurred by Slabaugh Morgan, White and Associates under Contract No. PBGC01-CT-99-0581 for the fiscal years ended September 30, 2003 and 2004. As you are aware, Slabaugh Morgan White and Associates ("Slabaugh Morgan") was acquired by Palmer & Cay several years ago. Therefore, throughout this letter, we will refer to Palmer & Cay processes as they relate to the findings under the Slabaugh Morgan contract. The following are comments we wish to include in your final report.

Palmer & Cay's Billing Process

Palmer & Cay believes a more complete description of our billing process would give a reader of the report a better context in which to review your findings and recommendations on page 5 of your report.

Most of the work under this contract was performed on-site at the PBGC. In addition, all Palmer & Cay personnel, with the exception of our supervisors, worked exclusively on this contract full-time. Our personnel worked directly with the PBGC-designated contract technical representative (COTR). The COTR was responsible for assigning the work to be performed, and set the deadlines for the work to be accomplished. Palmer & Cay personnel were required to keep track of their time on each individual project (usually by appeal number) on a daily basis. Each employee entered their time into Palmer & Cay's web based billing system called Portera. Portera requires the employee to enter the time spent on each project (both billable and non-billable) for each day. Portera requires entries for the 1st through the 15th of each month, and the 16th through the end of each month. Once the timesheet is completed, prior to preparation for invoicing at the end of the month, each employee is required to submit the two timesheets for approval. Once the timesheet has been submitted, Portera sends an email notifying our Billing Supervisor under the contract, alerting her that an employee has time billed under the contract. Our Billing Supervisor then reviews the time billed for the project. At that time, if any questions or problems are identified with the submission, The Billing Supervisor consults with the employee. Once any concerns are reconciled, the Billing Supervisor approves the final submission to Portera. Once an employee has submitted their final timesheet for the month, they print a paper copy (see Attachment I for an example), sign and date it, and deliver it to our Billing Manager for the contract. It is important to note that the paper copy shows the time spent on each project by the day for each period of the month. These paper timesheets are kept on file.

An invoice is prepared, and includes a summary of the hours worked for the month by each employee, and is sent to the COTR for final approval. The COTR then submits the invoice for payment.

The Audit Findings

Nos. 1 and 2.

The audit findings state that paper records were not available to support time entries into the Portera system for certain active and certain terminated employees, and references Federal Acquisition Regulations (FAR) 4.703 as the basis for the finding. We think the findings are mitigated by the following points:

- Each timesheet is reviewed and approved by at least two Palmer & Cay employees, the Billing Supervisor and the Billing Manager. The Billing Supervisor has substantial experience (over 14 years) in working with PBGC contracts, using similar timekeeping practices, and has a measured sense of what is reasonable and what is not when it comes to billing time for PBCG related projects.

- Each individual work assignment billing summary is reviewed and approved by PBGC personnel - the COTR. At no time did the COTR or any other PBGC personnel ever question the hours worked on an individual work assignment during this contract.

- To our knowledge, all the other approved PBGC actuarial contractors are using similar on-line timekeeping procedures.

The Recommendations

Palmer & Cay has implemented the following procedures in response to the audit recommendations:

- Although the contract for this type of work was not renewed, since the time of the audit, Palmer & Cay has implemented new procedures to further refine our time-keeping practices in accordance with FAR 4.703. All employees are now required to keep a daily calendar with written entries showing the daily time they work on each project, a short description of the work performed, the start and end times for each day worked, and the start and end times of their daily lunch break. Copies of each calendar will be maintained to support their Portera entries.

In conclusion, we believe each of our invoices accurately represent the time worked on each project for all our employees. The total time reflected on each invoice is supported by reasonable timekeeping practices that were consistent with both industry practice and PBGC standards. We are confident that the "allowabilty" of all billings would be sustained upon any further inquiry. As the high quality work product provided to the PBGC over the last five years demonstrates our commitment to technical excellence, so too are we committed to improving our timekeeping practices so as to avoid questions of this kind in future audits.

Once again, we would like to thank you for the opportunity to provide responses to the audit findings and recommendations. We look forward to receiving your final report. If I can be of any assistance, please call me at 703-464-8608.

Independent Accountants' Comments on Contractor's Response

Finding 1- Unsupported Time Charges Billed – Current Employees

We reaffirm our position. The two active employees cited in finding one above did not retain adequate contemporaneous support documentation for Portera time charges billed to the PBGC contract as required by FAR 4.703. Because these employees entered their time on the 15th and the 30th of each month, contemporaneous support documentation (e.g. calendars, day planners, monthly planners, notes) was necessary to enable us to validate the accuracy of employee periodic time charges. All other employees sampled either entered their time daily or provided sufficient support documentation for Portera time charges billed to the PBGC contract. The aforementioned active employees cited in our report stated that support documentation for FYs 2003 and 2004 had been purged and was no longer available for our review. FAR 4.703 states that the "contractor shall make available records, which include books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form, and other supporting evidence to satisfy contract negotiations, administration and audit requirements of the contracting agencies and the Comptroller General." The FAR also states that this information/documentation should be retained for 3 years after final payment. If the contractor can now provide other mitigating information/documentation to support its claim, it should be presented to the contracting officer during the settlement phase of this Agreed-Upon Procedure engagement.

Finding 2- Unsupported Time Charges Billed – Separated Employees

We reaffirm our position. Management did not retain adequate contemporaneous support documentation for Portera time charges billed to the PBGC contract by 11 separated employees as required by FAR 4.703 for FYs 2003 and 2004. FAR 4.703 states that the "contractor shall make available records, which include books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form, and other supporting evidence to satisfy contract negotiations, administration and audit requirements of the contracting agencies and the Comptroller General." The FAR also states that this information/documentation should be retained for 3 years after final payment. If the contractor can now provide other mitigating information/documentation to support its claim, it should be presented to the contracting officer during the settlement phase of this Agreed-Upon Procedure engagement.

Pension Benefit Guaranty Corporation

Office of Inspector General

Procurement Cycle Performance Audit Report

Report on the initiation, monitoring and close-out of acquisition of goods and services in excess of $2,500.

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March 16, 2006

2006-9/CA-0010

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

March 16, 2006

MEMORANDUM

TO: Robert Herting, Procurement Department
Theodore Winter, Financial Operations Department

FROM: Luther Atkins
Assistant Inspector General for Audit

SUBJECT: Performance Audit of Procurement Cycle (PBGC OIG Project No. CA-0010, Task Order No. 23185-1)

This memorandum transmits report no. 2006-9/CA-0010 prepared by Harper, Rains, Knight & Company, P.A. (HRK) at the request of the Office of Inspector General (OIG). During FY 2005, HRK applied procedures to assist OIG in determining whether FY 2004 acquisitions in excess of $2,500 processed through the Procurement Department of PBGC were in compliance with specific provisions of its financial management directives and policies, and the Federal Acquisition Regulation (FAR).

The procedures performed and results are discussed in the attached report.

We extend our appreciation for the cooperation we received from your office in performing this audit.

Report Summary

Overall, the PBGC procurement process was found to be operating effectively. HRK identified instances of noncompliance with PBGC's financial directives and policies, and as a result made recommendations for corrective action.

We believe the recommendation to create a single, definitive source for PBGC procurement procedures will further satisfy the other audit findings and recommendations.

PBGC management agreed with the recommendations, and their comments are incorporated into this report.

Attachment

cc: Stephen Barber, Chief Administrative Officer
James C. Gerber, Chief Financial Officer
Martin Boehm, Contract and Control Review Department

PENSION BENEFIT GUARANTY CORPORATION
PROCUREMENT CYCLE
PERFORMANCE AUDIT

TASK ORDER NO. 23185-1

HARPER, RAINS, KNIGHT & COMPANY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
RIDGELAND, MISSISSIPPI

HARPER, RAINS, KNIGHT
& COMPANY

March 13, 2006

Mr. Luther Atkins
Assistant Inspector General for Audit
Pension Benefit Guaranty Corporation
1200 K Street, NW, Suite 470
Washington, D.C. 20005

Subject: Performance Audit of Procurement Cycle (PBGC OIG Project No. CA-0010, Task Order No. 23185-1)

Dear Mr. Atkins:

In accordance with terms of the subject task order, Harper, Rains, Knight & Company, P.A. conducted a performance audit on various components of the Pension Benefit Guaranty Corporation's (PBGC) procurement process. The primary objective of this performance audit was to determine whether acquisitions in excess of $2,500 processed through the Procurement Department (PD) of PBGC were in compliance with specific provisions of its financial management directives and policies, and the Federal Acquisition Regulation (FAR).

As discussed in our performance audit report pursuant to Task Order No. 23185-1, overall, the PBGC procurement process was found to be operating effectively. We have, however, identified instances of noncompliance with PBGC financial management directives and policies, as follows:

1. PBGC lacks comprehensive documentation of the procurement process available to originators, Contracting Officer's Technical Representatives (COTRs), and Contract Specialists.

2. Large purchase contract files maintained by PD, General Accounting Branch (GAB), and COTRs did not contain all documentation required by PBGC directives, policies and procedures, and the FAR.

3. The COTR/contract database maintained by PD did not always contain the most up-to-date contract administration information.

4. Final invoices certified for payment by the COTR were not always indicated as being the final invoice under a large purchase.

5. Large purchases were not always closed-out within the time requirements established by the FAR.

6. Simplified acquisition files maintained by PD, GAB, and the originator did not contain documentation required by PBGC directives, policies and procedures, and the FAR.

7. Blanket purchase agreements were not executed in accordance with the FAR.

8. Simplified acquisition files maintained by PD did not contain documentation that simplified acquisitions were closed-out in accordance with the FAR.

We conducted our engagement in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

We were not engaged to, and did not perform a financial statement audit, the purpose of which would be to express an opinion on amounts and disclosures in the financial statements, in accordance with accounting standards generally accepted in the United States of America.

This report is intended to meet the objectives described above and should not be used for other purposes. This reported is intended solely for the information and use of PBGC's Office of Inspector General (OIG), Procurement Department, and General Accounting Branch, and is not intended to be and should not be used by anyone other than these specified parties.

Harper, Rains, Knight & Company, P.A.

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ACRONYMS

BPA	Blanket Purchase Agreement
CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
CS	Contract Specialist
DO	Delivery Order
ED	Education (Training) Document
EER	Expanded Examination Review
ERISA	Employee Retirement Income Security Act of 1974
FAR	Federal Acquisition Regulation
FASD	Facilities and Services Department
FM	Directive – Financial Management
FOD	Financial Operations Department
GAB	General Accounting Branch / Financial Operations Department
GAO	Government Accountability Office
HRK	Harper, Rains, Knight & Company, P.A.
IA	Interagency Agreement
IPP	Individual Procurement Plan
OIG	Office of Inspector General
OIT	Office of Information Technology
PA	Performance Accounting
PBGC	Pension Benefit Guaranty Corporation
PD	Procurement Department
PO	Purchase Order
SOW	Statement of Work
TEP	Technical Evaluation Panel

EXECUTIVE SUMMARY

Introduction

The Pension Benefit Guaranty Corporation (PBGC) is a federal corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA). In order to carry out its purpose, as defined by ERISA, PBGC procures goods and services from outside sources. PBGC elected to follow the Federal Acquisition Regulation (FAR), and established other financial management directives and policies in order to ensure the effective and efficient procurement of goods and services.

The Office of Inspector General engaged (Task Order No. 23185-1) Harper, Rains, Knight & Company, P.A. (HRK) to conduct a performance audit on various components of PBGC's procurement process, and to report the results in accordance with Government Auditing Standards (Chapters 7 and 8) issued by the Comptroller General of the United States.

Objective

The primary objective of this performance audit was to determine whether acquisitions in excess of $2,500 processed through the Procurement Department (PD) of PBGC were in compliance with specific provisions of its financial management directives and policies and the FAR.

Audit Findings

Overall, the PBGC procurement process was found to be operating effectively. We have, however, identified instances of noncompliance with PBGC financial management directives and policies, as follows:

1. PBGC lacks comprehensive documentation of the procurement process available to originators, COTRs, and Contract Specialists. Current documentation does not adequately address the overall procurement process or assignment of responsibility for various functions, causing confusion to those in the process who are outside PD; thus hindering responsible parties from efficiently administering the contract.

2. Large purchase contract files maintained by PD, General Accounting Branch (GAB), and the Contracting Officer's Technical Representative (COTR) did not contain all documentation required by PBGC directives, policies and procedures, and the FAR. Incomplete file documentation increases the risk that documentation of all contract activities may be lost; thus hindering responsible parties from efficiently administering the contract.

3. The COTR/contract database maintained by PD did not always contain the most up-to-date contract administration information. A noncurrent COTR/contract database increases the risk documentation could be sent to those not primarily responsible for the administration of the contract; thus, such documentation may not become a part of the official file.

4. Final invoices certified for payment by the COTR were not always indicated as being the final invoice under the large purchase. A final invoice not indicated as such has an increased risk of not receiving an additional level of review by GAB and increases the risk contract close-out procedures will be delayed; thus hindering responsible parties from efficiently administering the contract.

5. Large purchases were not always closed-out within the time requirements established by the FAR. Untimely close-out of contracts increase the likelihood current year monies will remain obligated under the contract and will be unavailable for other projects.

6. Simplified acquisition files maintained by PD, GAB, and the originator did not contain documentation required by PBGC directives, policies and procedures, and the FAR. Incomplete file documentation increases the risk the contractor will not perform in accordance with the obligating document.

7. Blanket purchase agreements were not always executed in accordance with the FAR. Incomplete documentation and issuance of such agreements not in accordance with the FAR increases the risk that a blanket purchase agreement will be issued for more than is required and authorized.

8. Simplified acquisition files maintained by PD did not contain documentation that simplified acquisitions were closed-out in accordance with the FAR. Close-out of simplified acquisition files not in accordance with the FAR increases the likelihood excess funds remain on the acquisition which are not deobligated; thus making such funds unavailable for other projects.

Recommendations and Agency Response

We made a number of recommendations to the Procurement Department and one recommendation to the Financial Operations Department to address the audit findings identified above. PBGC management agreed with the recommendations, and their comments are incorporated into this report.

PERFORMANCE AUDIT REPORT

Introduction

The Pension Benefit Guaranty Corporation (PBGC) is a federal corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA). Its purpose, as defined by ERISA, includes: (1) to encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants, (2) to provide for the timely and uninterrupted payment of pension benefits to participants and beneficiaries under plans to which Title IV of ERISA applies, and (3) to maintain premiums at the lowest level consistent with carrying out its obligations.

PBGC procures goods and services from outside sources in order to carry out its mission. PBGC elected to follow the Federal Acquisition Regulation (FAR), and established other financial management directives and policies in order to ensure the effective and efficient procurement of goods and services.

The Office of Inspector General engaged (Task Order No. 23185-1) Harper, Rains, Knight & Company, P.A. (HRK) to conduct a performance audit on various components of PBGC's procurement process, and to report the results in accordance with Government Auditing Standards (Chapters 7 and 8) issued by the Comptroller General of the United States.

Objective

The primary objective of this performance audit was to determine whether acquisitions in excess of $2,500 processed through the Procurement Department (PD) of PBGC were in compliance with specific provisions of its financial management directives and policies and the FAR.

Audit Findings

We have identified recommendations that would further improve the existing processes. We discuss our findings below and provide recommendations to strengthen the procurement process.

1. Documentation of overall procurement process

After a review of the procurement directives and policies maintained on the PBGC intranet and testing performed during this engagement, we believe it is essential that the overall procurement process be documented in a comprehensive guide for originators, COTRs, and Contract Specialists. The lack of comprehensive documentation of the procurement process is a root cause of several of the audit findings contained in this report. PBGC's current level of documentation includes many individual documents addressing various phases of the procurement process, which may be too cumbersome to be of use. Also, some employees are not even aware of its presence on the intranet. The FAR addresses the technical aspects of contract pre-award and award documentation, but does not address the assignment of responsibility for contract administration at any level below the Contracting Officer and does not address monitoring of those responsibilities.

Recommendation for the Procurement Department Director

Create a single, definitive source for PBGC procurement procedures, and assign responsibility for monitoring contract administration responsibilities below the Contracting Officer level. **(OIG control number PD-61)**

> **Management's Response:** As we previously agreed, the Procurement Department will review existing guidance for adequacy, make improvements where necessary, and consolidate contract guidance so that Procurement Department staff, Contracting Officer's Technical Representatives (COTRs), and other PBGC personnel may refer to the guidance in connection with award, administration and settlement of PBGC contracts. We anticipate that this effort will be completed by January 31, 2007.
>
> With regard to the recommendation to assign responsibilities for monitoring contract administration and monitoring responsibilities below the Contracting Officer level, we disagree as such responsibilities are appropriately vested in the Contracting Officer as the single point of accountability for all contract actions within the agency. We believe this is consistent with Federal Acquisition Regulation and the practices of other agencies. We note that Contract Specialists within the Procurement Department and Contracting Officer's Technical Representatives already play an important role in administering and monitoring contracts to which they are assigned. To ensure that there is sufficient guidance relating to contract administration and contract monitoring for such individuals, we will review existing guidance as part of our effort to consolidate procurement procedures and make any necessary improvements.
>
> **OIG's Evaluation of Management's Response:** Management is responsive to our recommendation.

Evaluation of Large Purchases

For large purchases, PBGC substantially complied with the applicable FAR requirements and PBGC directives, policies, and procedures with respect to the following:

- Contract file documentation;
- Authorized approvals of applicable documents;
- Completeness of applicable documentation;
- Distribution of obligating documents;
- Recordation of asset purchases in OIT and FASD; and
- Invoice review and approval.

We have, however, identified instances of noncompliance with PBGC financial management directives and policies, as follows:

2. Incomplete documentation maintained in contract files.

Documentation of contract activity includes documents maintained by the Procurement Department, the Contracting Officer's Technical Representative, and the General Accounting Branch.

While testing indicates PBGC substantially complied with the contract file documentation requirements, the contract files maintained did not contain all documentation to fully support contract activities in accordance with the FAR and PBGC directives, policies and procedures.

Contract file maintained by the Procurement Department
Thirty-three of fifty-two (or 63%) reviewed contracts contained a clause which required the contractor to submit a copy of the invoice to the Contract Specialist in the PD. Of the fifty-two contract files reviewed, none of the contract files had invoices maintained in the contract file. In our discussion with PD management, the Contract Specialists "spot-check" invoices to ensure compliance with contract provisions, such as labor rates. Invoices are not maintained in the contract file to keep the contract files to a manageable size and after review are shredded. There is no documentation contained in the contract file indicating certain invoices were reviewed by the Contract Specialists.

Recommendation for the Procurement Department Director

Issue guidance that requires: Review of documents before inclusion into the contract file to ensure it is complete and contains all necessary items, such as signatures; and Documentation evidencing invoice review by Contract Specialists be included in the contract file. **(OIG control number PD-62)**

> **Management's Response:** We agree with the recommendation requiring a review of documents prior to inclusion into the contract file. The Procurement Department will use a checklist to ensure completeness of the contract file. We anticipate that this effort will be completed by April 30, 2006.
>
> With regard to the recommendation that we maintain documentation of invoice reviews by Contract Specialists within the Procurement Department, we do not agree. Given resource constraints, cost/benefit considerations, and the sheer volume of invoices submitted each month by PBGC contractors, it is not practical for each Contract Specialist to document his or her review of invoices and retain each invoice submitted under each PBGC contract in the contract file. The requirement to submit a copy of invoices to Contract Specialists is for informational purposes, and Contract Specialists are generally not involved in the routine invoice approval process. In accordance with PBGC Directive 15-1, original invoices are submitted to the General Accounting Branch (GAB) within the Financial Operations Department (FOD) which forwards the invoices to Contracting Officer's Technical Representatives (COTRs) for their review and approval prior to certifying payments. When problems, including significant invoice issues, are noted by the

Contracting Specialist, or raised by COTRs actions are taken to address the identified issues. All payments made to contractors are subject to audit and adjustment by the Contracting Officer until contract settlement. Therefore, if mistakes or errors are noted, they can be addressed later during contract performance or as part of the final invoice submitted at contract settlement. Also, the original invoices approved for payment by COTRs are retained by the General Accounting Branch should they need to be reviewed at a later time.

Detailed reviews of each invoice submitted can increase processing costs and the potential for late payments. In fact, certain government agencies permit contractors that maintain adequate billing systems to receive payments with limited or no review of invoices prior to payment.

We believe that implementation of this recommendation would negatively impact the performance of other duties performed by the Contract Specialist, and is not necessary since risk in this area is reduced to an acceptably-low level based on:

- existing COTR invoice review and monitoring processes,
- existing Contract Specialist oversight of contract monitoring processes,
- contract evaluation services provided by the Contracts and Controls Review Department,
- independent contract audit services provided by the Office of Inspector General, and
- a newly-implemented requirement for the Office of General Counsel to review major contract actions.

OIG's Evaluation of Management's Response: Management is responsive to our recommendation for issuing guidance requiring a review of documents to ensure the contract file is complete.

Management's response also stated they do not agree to maintain documentation of invoice reviews conducted by Contract Specialists. The requirement for Contract Specialists to "spot check" invoices to ensure compliance with contract provisions is not a new requirement. Contract clauses require this spot review of invoices; our audit noted there was no *evidence* the reviews were conducted by the Contract Specialists. Our recommendation was not intended to require that all invoices reviewed by the Contract Specialists be maintained in the contract file; we recognize that original invoices are currently retained. Our recommendation was to have *evidence* of the Contract Specialist's invoice review documented in the contract file.

We agree with management's assertion that sufficient compensating controls exist.

Contract file maintained by the Contracting Officer's Technical Representative

In accordance with invoice review procedures maintained on the PBGC Intranet, COTRs are required to perform expanded examination reviews (EER) for all invoices when deemed necessary and for the original invoice under a contract, and three times a year for billings in excess of $300,000 a year. Fifty-two COTR contract files were reviewed and none (or 0%)

contained evidence the COTR performed EERs in accordance with PBGC policies and procedures. In discussions with each COTR whose file was reviewed, none were aware of PBGC's policy requiring the performance of EERs. In our review of invoices maintained in the COTR file, we noted that all invoices were reviewed by the COTR. However, the lack of consistent application of the review procedures increases the risk complete reviews of invoices will not be performed.

After completion of the contract, PBGC Directive FM 15-1 requires the COTR file to be forwarded to the Procurement Department and integrated with the contract file maintained by the Procurement Department. Of the thirty-eight contract files reviewed which were closed-out in FY 2004, there was no evidence the COTR file was forwarded to the Procurement Department (or 0%). Discussions with some of the associated COTRs indicated that a majority of the COTRs were unaware of the directive requirement that they forward the file to PD, and instead are maintaining their COTR file on site for a varying number of years and then shipping their COTR file to PBGC's record center with their own department's files. The two files should be aggregated at close-out because the documentation maintained by the COTR is part of the official contract file along with the file maintained by the Procurement Department. Separate maintenance increases the risk a COTR file will be lost or prematurely destroyed, thus possibly eliminating the COTR file as a source of documentation of contract activity should contractual issues arise.

Recommendation for the Procurement Department Director

Issue guidance that requires COTR to keep a contract file content checklist. Not only will this aid the COTR in the maintenance of complete contract files, but it will also simplify the contract close-out process. An updated content list will enhance a COTR's ability to know when contract actions under the contract are complete and all documentation is present in the contract file.

The requirement to forward the COTR file should be emphasized in the COTR training courses, as should the understanding that the COTR file is part of the official contract file and, as such, its maintenance is of the highest priority. **(OIG control number PD-63)**

> **Management's Response:** We agree. The Procurement Department will develop such a checklist and attach it to future issuances of the COTR Designation Memorandum, and will also distribute the checklist to existing COTRs. We will emphasize the requirement to forward COTR files to the Procurement Department with existing COTRs and will incorporate this into COTR training. This effort should be completed by May 30, 2006.
>
> **OIG's Evaluation of Management's Response:** Management is responsive to our recommendation.

Contract file maintained by the General Accounting Branch

FAR 4.803(c) provides that the paying office contract file would normally contain a copy of the obligating document, any modifications, invoices, and records of payment. PBGC Directive FM 15-1 requires that GAB be forwarded a copy of the obligating document, any modifications, and invoices. PD maintains the original file for reference purposes should GAB need to refer to the original document. Five of the fifty-two (or 10%) did not contain a copy of the contract. Also, four (or 8%) selected files were no longer maintained in the GAB file room due to the age of the contract and lack of invoice activity. These files were previously shipped to PBGC's record center. GAB management indicated it does not maintain all contract file documentation due to space limitations. As a result, GAB archives obligation folders from the year before the previous fiscal year. GAB management further stated if an invoice is submitted for an archived obligation, then another file for payment is prepared by GAB. This procedure may explain the missing obligating documents previously noted. Incomplete file documentation increases the risk that documentation of all contract activities may be lost.

Recommendation for the Financial Operations Department Director

Implement controls to insure that contract file documents are retained in contract files. **(OIG control number FOD-377)**

Management's Response: We believe that controls relating to this area are already in place, and agree that the General Accounting Branch within the Financial Operations Department should place additional emphasis on maintaining obligating documents in the future. As your report details, General Accounting Branch records are periodically archived given limitations on available file storage space. However, it should be noted that any records that are archived are done so in accordance with approved record schedules, and may be obtained if needed. Further, the Procurement Department maintains the agency's official copy of the contract and any obligating documents on-site for all active contracts for reference purposes. We will emphasize this requirement with responsible staff by April 30, 2006.

OIG's Evaluation of Management's Response: Management is responsive to our recommendation.

3. COTR database maintained by Contracting Officer

According to PBGC Directive FM 15-1, one of the responsibilities of the Procurement Department is to maintain the official COTR/contract listing for PBGC. This is accomplished through the maintenance of a COTR/contract database driven by Microsoft Access. We reviewed forty-six records in an attempt to match the COTR actually administering the contract, determined from contact with each person actually administering and maintaining the file of the forty-six contracts, with the COTR designated on the database. Seven of forty-six (or 15%) records reviewed, active as of the testing date were not a match to the COTR actually administering the contract. In our discussion with PD management, the COTR/contract database is updated periodically as modifications to change the COTR are processed and should list the most up-to-date COTR. A noncurrent COTR/contract database increases the risk documentation could be sent to those not primarily responsible for the administration of the contract.

Recommendation for the Procurement Department Director

Implement controls to ensure the COTR/contract database is updated each time a COTR changes so that the database remains continuously up-to-date. **(OIG control number PD-64)**

> **Management's Response:** We believe that controls relating to this area are already in place, and agree that the Procurement Department should place additional emphasis on this requirement in the future. We will take corrective action regarding this recommendation by April 30, 2006.
>
> **OIG's Evaluation of Management's Response:** Management is responsive to our recommendation.

4. Identification of final invoice

PBGC Directive FM 15-1 states that COTRs are required to indicate a final invoice under a contract as being final. According to the Directive, this is typically accomplished by marking "Yes" on the COTR certification form in response to the question regarding whether the invoice is final. Twenty-two of thirty-eight (or 58%) of final invoices were not indicated as being final (neither "Yes" nor "No" was marked on the COTR certification form). It is important that the final invoice under a contract be very carefully reviewed by both the COTR and GAB due to the increased risk of inflated billings. A final invoice which is not indicated as such has an increased risk of not receiving the additional level of review by GAB. In addition, invoices not indicated as final increase the risk that the commencement of contract close-out will be delayed because there is no evidence of final payment.

Recommendation for the Procurement Department Director

Implement controls so that invoices are identified and marked as "final" or "not final." **(OIG control number PD-65)**

> **Management's Response:** The requirement to mark invoices as "final" when appropriate is already in place, and we agree that the Procurement Department should place additional emphasis on this requirement in the future. The Procurement Department will issue a message to existing COTRs regarding this invoice processing requirement. We will take corrective action regarding this recommendation by April 30, 2006.
>
> **OIG's Evaluation of Management's Response:** Management is responsive to our recommendation.

Recommendation for the Financial Operations Department Director

Our draft report recommended that only invoices indicating whether "final" or "not final" are paid by GAB so that obligated funds may be deobligated in a timely manner. OIG recognizes that GAB has compensating controls to ensure that funds are deboligated in a timely manner. Accordingly, we make no recommendation to FOD on this issue.

5. Closeout of contract by office administering the contract

FAR 4.804-1(a)(2) – (4) states:

> (2) Files for firm-fixed-price contracts, other than those using simplified acquisition procedures, should be closed within 6 months after the date on which the contracting officer receives evidence of physical completion.
> (3) Files for contracts requiring settlement of indirect cost rates should be closed within 36 months of the month in which the contracting officer receives evidence of physical completion.
> (4) Files for all other contracts should be closed within 20 months of the month in which the contracting officer receives evidence of physical completion.

The relevant dates examined were the final invoice date that indicates completion of the contract, and the date on the contract completion statement that indicates the date at which the contract was considered closed.

Three of four (or 75%) firm-fixed price contracts reviewed which were closed out in FY 2004 were not closed within 6 months after the contracting officer received evidence of completion of the contract. Nineteen of thirty-four (or 56%) contracts which were neither a firm-fixed price nor required settlement of indirect cost rates were not closed within 20 months after the contracting officer received evidence of completion of the contract. Untimely close-out of contracts increase the likelihood current year monies will remain obligated under the contract and will be unavailable for other projects (commonly referred to as unliquidated obligations). Also, untimely close-out of contracts increases the risk contract file documentation will not be complete.

FAR 4.804-5(a) states that certain administrative closeout procedures must be considered, such as ensuring the submission of the final invoice and the deobligation of excess funds. The majority of the thirty-eight contracts reviewed closed-out in FY 2004 contained certain close-out documentation. Such documentation included a COTR close-out memorandum and a close-out checklist completed by the Contract Specialist, documenting the consideration of the administrative closeout procedures. However, nine of thirty-eight (or 24%) reviewed contained no close-out documentation, thus containing no evidence of the consideration of administrative close-out procedures. In our discussion with PD management, the contract close-out checklist and COTR memorandums have only been done for the past several years and each of the nine contracts were inactive prior to that time. The lack of contract close-out documentation increases the risk a contract will be closed-out prematurely or with excess funds still remaining on the contract. Procurement department management stated that in order to be able to dedicate more staffing to the close-out of contracts, it would be necessary to hire additional staff members to the department, which at the present time consists of less than ten employees.

FAR 4.804-5(b) states an original signed contract completion statement is required to be placed in the contracting office contract file. We reviewed thirty-eight contract files closed-out during

FY 2004. Thirteen (or 34%) did not contain an original signed contract completion statement in the contracting office contract file, but were maintained in a separate file. Maintaining contract documentation in a separate file increases the risk contract close-out documentation will be lost.

Recommendation for the Procurement Department Director

Implement controls to provide proper staffing to the timely close-out of contracts, so as to be in accordance with the applicable FAR requirements regarding timing of contract close-out. **(OIG control number PD-66)**

> **Management's Response:** We agree with this recommendation. Given the large existing inventory of active contracts and demands on staff to address new procurement requirements, inactive contracts are not always settled in a timely manner. As part of an ongoing effort to address this area, we have already dedicated a staff member to focus on contract settlement activities.
>
> **OIG's Evaluation of Management's Response:** Management is responsive to our recommendation.

Evaluation of Simplified Acquisitions

For simplified acquisitions, PBGC substantially complied with the applicable FAR requirements and PBGC directives, policies, and procedures with respect to the following:

- Simplified acquisition file documentation;
- Authorized approvals of applicable documents;
- Completeness of applicable documents;
- Distribution of obligating documents;
- Recordation of asset purchases in OIT and FASD; and
- Invoice review and approval.

We have, however, identified instances of noncompliance with PBGC financial management directives and policies, as follows:

6. Incomplete documentation maintained in simplified acquisition files.

Simplified acquisition file maintained by department originator

PBGC Directive FM 15-1 requires that the originator of a requisition be forwarded a copy of the obligating document by the Procurement Department. Seven of sixty-one (or 11%) simplified acquisition originator files reviewed did not contain a copy of the obligating document. The originator should receive the obligating document as a source for contractual information regarding the contractor's performance under the simplified acquisition. PD management stated it sends copies to both the originator and Budget Liaison in each department, but PD maintains the original agency copy for reference purposes. Incomplete originator files increase the risk the contractor will not perform in accordance with the obligating document.

Recommendation for the Procurement Department Director

Issue guidance to departments regarding record retention in order to improve consistency for simplified acquisition record keeping. **(OIG control number PD-67)**

Management's Response: As original obligating documents (purchase order) are maintained by the Procurement Department, we believe that retention of copies of such documents should be governed by the record retention schedules of individual departments or offices. We note that copies have been consistently been provided to the requesting department's Budget Liaison Officer and the originator of the initial requisition. Further, the larger issue of corporate-wide record retention practices are being addressed by PBGC with the support of a Millican & Associates, Inc., a consulting firm that specializes in record management issues.

We agree to supplement our existing processes by having the Procurement Department provide an additional copy of purchase orders to the department's technical point of contact for the work effort. This person is typically responsible for approval of invoices and monitoring contractor performance. In addition, we will emphasize the need for the technical points of contact to refer to their copy of the purchase order when questions arise about contractor performance or when approving invoices for payment. We will take corrective action regarding this recommendation by April 30, 2006.

OIG's Evaluation of Management's Response: Management is responsive to our recommendation.

7. Blanket purchase agreement documentation

According to FAR 13.303-3, blanket purchase agreements are required to document the purchase limitation, and the individuals authorized to purchase under the agreement. We reviewed two blanket purchase simplified acquisition files and neither (or 0%) file contained the above mentioned documentation. The PD management stated the department chooses not to follow the documentation requirements of the FAR and, instead, issues the blanket purchase for the expected annual needs and draws the funds down during the period of performance. Management of the Procurement Department considers the procedures currently performed to have sufficient controls given that the extent of the obligation and the purchase limitation are established by the issuing of the document, and therefore, will not be exceeded. Issuance of such agreements not in accordance with the FAR increases the likelihood that a blanket purchase will be issued for more than is required and authorized.

Recommendation for the Procurement Department Director

Establish and implement controls so that blanket purchase agreements are issued in accordance with the FAR, including all documentation requirements, and unauthorized individuals are prevented from purchasing under the agreement. **(OIG control number PD-68)**

Management's Response: We agree with this recommendation, and the Procurement Department will implement procedures consistent with FAR 13.303-3 when issuing blanket purchase agreements. This recommendation will be implemented by April 30, 2006.

OIG's Evaluation of Management's Response: Management is responsive to our recommendation.

8. Closeout of contract by office administering the contract

FAR 4.804-1(a)(1) states the following in reference to the closeout of simplified acquisitions:

> (1) Files for contracts using simplified acquisition procedures should be considered closed when the contracting officer receives evidence of receipt of property and final payment, unless otherwise specified by agency regulations.

We reviewed twenty-eight simplified acquisition files and none (or 0%) contained evidence of receipt of property or final payment. The FAR requires simplified acquisition file documentation be maintained for three years. In our discussion with Procurement department management, the PD maintains the simplified acquisition file for three years and then considers the file closed, assuming the originator does not contact the procurement department to indicate goods/services were not properly received. The current procedure for the close-out of simplified acquisitions increases the likelihood excess funds remain on the acquisition which is not deobligated.

Recommendation for the Procurement Department Director

Implement contract close-out procedures required by the FAR, namely the inclusion in the contract file of evidence of receipt of goods/services and final payment.

Among the items tested, we did not identify any instances of contracts receiving payment for goods or services not delivered. PD management indicated that PBGC has compensating controls which reduce this risk to an acceptable level. **(OIG control number PD-69)**

Management's Response: We agree to review this area to determine an appropriate course of action, including determining whether the issuance of supplemental agency guidance detailing how PBGC purchase orders should be closed out is appropriate. We are pleased that the report noted that the audit did not identify any instances of contractors' receiving payment for good or services not provided. Currently, our existing processes rely on the applicable technical point of contact or other person approving invoices under the contract to identify instances where goods or services are not received. In addition, it is important to note that the General Accounting Branch ensures that all invoices, including invoices relating to simplified acquisitions, are proper and approved prior to payment. Regarding the concern that excess funds may remain on purchase orders, General Accounting Branch staff and Procurement Department staff are closely coordinating in reviewing obligations that relate to prior years' to help ensure that such funds are deobligated in a timely manner.

The Procurement Department will review this area more closely and complete its assessment by April 30, 2006.

OIG's Evaluation of Management's Response: Management is responsive to our recommendation.

Other Issues Identified

During our extensive review of all phases of the procurement process, we noted several issues not specifically tested. Implementation of the following recommendations will provide greater consistency and effectiveness in the procurement process.

9. COTR Monthly Status Reports

According to Directive FM 15-1 and other PBGC procurement documentation, each month every COTR currently monitoring a contract is required to submit a Monthly Status Report. The status report is supposed to be tool for the COTR to communicate with his/her Contract Specialist on issues, which have emerged regarding the contract in the prior month. Through testing performed during this engagement, we determined that preparation of the Monthly Status Reports is a time intensive process, which provides minimal benefit to the procurement process. Our testing revealed that the COTRs are aware and do utilize their Contract Specialist (CS) should they need assistance in the administering of their contract, thereby negating the need to report the information required by the Monthly Status Report.

Recommendation for the Procurement Department Director

Evaluate the need for a COTR to write and submit a Monthly Status Report to the Contract Specialist. **(OIG control number PD-70)**

Management's Response: We agree with this recommendation, and will evaluate the need for this report. As effective communications are necessary to effectively administer contracts, we are pleased that the report indicated that COTRs do seek assistance from Contract Specialists when contract administration guidance is needed. We will complete this effort by April 30, 2006.

OIG's Evaluation of Management's Response: Management is responsive to our recommendation.

Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

Unisys Corporation

Audit of Incurred Costs on Delivery Order No. PBGC01-DO-04-0143
(Issued under Prime Contract No. GSOOT99ALD0212)

September 27, 2006

2006-16/CA-0013

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

September 27, 2006

MEMORANDUM

TO: Robert Herting, Contracting Officer
Procurement Department

FROM: Luther L. Atkins Deborah Stover-Springer
Assistant Inspector General for Audit

SUBJECT: Audit of Incurred Costs on Delivery Order No. PBGC01-DO-04-0143, Unisys Corporation
(DCAA Report No. 6321-2006U17900001)

This memorandum transmits an audit report concerning Unisys Corporation prepared by the Defense Contract Audit Agency (DCAA), No. 6321-2006U17900001, at the request of the Office of Inspector General (OIG). On April 6, 200, PBGC terminated for convenience a contract with Unisys under Delivery Order No. PBGC01-DO-04-0143 (issued under Prime Contract No. GSOOT99ALD0212). The Cost-Plus Fixed Fee contract was funded in the amount of $3,904,115 for the Development and Implementation of the Premium Practitioner Service (PPS) System.

DCAA examined the Unisys U.S. Federal Government Group's (USFGG) incurred costs to determine the allowability, allocability, and reasonableness; and to statistically sample the contract universe of incurred costs recorded on the contract. The accounting books and records examined are the responsibility of the contractor. DCAA's responsibility is to express an opinion based on their examination.

DCAA examined USFGG's initial claimed contract which amounted to $3,218,577 (comprised of $3,063,235 in costs and $155,342 in fees), dated January 10, 2006. DCAA found inadequacies that resulted in the receipt of a revised submission dated June 6, 2006, for $3,159,114 (comprised of $3,006,642 in costs and $152,472 in fees).

DCAA's review uncovered $146,628 in questioned costs as follows:

Voluntary Deletion	$ 56,593
Purchase Service	44,974
Facilities	39,044
G&A	4,987
Purchases Burden	1,030
	$146,628

FOR OFFICIAL USE ONLY

DCAA questioned $44,974 in Purchase Services as unreasonable compensation (see Note 5, page 7). The subcontractor billed higher rates than were contained in the subcontract agreements, see FAR 31.205 (f). Also, no consultant or subcontract agreement was provided for an employee.

DCCA further questioned $39,044 in Facility Costs that were not allocable to the contract (see Note 4, page 5). DCAA found the contractor claimed facilities costs as if all direct labor was performed at USFGG controlled office space location (there are five different locations), when based on the contract's terms and conditions all work was to be performed at PBGC customer-site location.

The OIG recommends that you review the $146,628 in questioned costs to determine reasonableness, allocability and allowability **(PD-72)**.

If we can provide additional assistance, please call Henry Hopson, Audit Manager, on extension 3547.

Attachment

c: Martin Boehm, Director, Controls & Contracts Review Department

DEFENSE CONTRACT AUDIT AGENCY

AUDIT REPORT NO. 6321-2006U17900001

September 20, 2006

PREPARED FOR: Pension Benefit Guaranty Corporation
Assistant, Office of Inspector General for Audit
ATTN: Mr. Luther Atkins
1200 K Street, NW, Suite 480
Washington, D.C. 20005-4026

PREPARED BY: DCAA Reston Branch Office
171 Elden Street, Suite 300
Herndon, VA 20170-4810

Telephone No.	(703) 735-8221
FAX No.	(703) 735-8234
E-mail Address	dcaa-fao6321@dcaa.mil

SUBJECT: Report on Audit of Incurred Costs on
Delivery Order No. PBGC01-DO-04-0143

REFERENCES: PCO: Prime Contract No. GSOOT99ALD0212
Relevant Dates: (See Page 13)

CONTRACTOR: Unisys Corporation
U.S. Federal Government Group (USFGG)
11720 Plaza America Drive, Tower III
Reston, VA 20190-4757
(Cage Code: 4W798)

REPORT RELEASE RESTRICTIONS: See Page 14

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SUBJECT OF AUDIT

As requested by the Pension Benefit Group Corporation (PBGC), Office of Inspector General in a letter dated February 14, 2006, and as discussed subsequently with your office, we examined the Unisys U.S. Federal Government Group (USFGG) incurred costs for Delivery Order No. PBGC01-DO-04-0143, for the Development and Implementation of the Premium Practitioner Services (PPS) System, issued under Prime Contract No. GS00T99ALD0212. This Cost Plus Fixed Fee (CPFF) contract has incurred costs for the period of July 30, 2004 through April 8, 2005. The purpose of our examination was to determine the allowability, allocability, and reasonableness; and to statistically sample the contract universe of incurred costs recorded on this contract.

The accounting books and records examined are the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

EXECUTIVE SUMMARY

As summarized on page 3 of this report, we initially examined the claimed contract amount of $3,218,577 dated on January 10, 2006 (comprised of $3,063,235 of costs and $155,342 of fee) for this contract. We found inadequacies that resulted in the receipt of a revised submission dated on June 6, 2006 for $3,159,114 (comprised of $3,006,642 of costs and $152,472 of fee). In addition to this $56,593 voluntary deletion, we questioned an additional amount of $90,035 (exchanging fee):

- We questioned $44,974 of purchased services as unreasonable compensation (see Note 5, page 7). The subcontractor billed higher rates than contained in their subcontract agreements and per FAR 31.205(f). No consultant or subcontract agreement was provided for an employee.
- We questioned $39,044 of facility costs as unallocable to this contract (see Note 4, page 5). The contractor claimed facilities costs as if all of the direct labor was performed at USFGG controlled office space locations (five different locations), when all work was to be performed at the PBGC location (customer-site) per the contract's terms and conditions.

SCOPE OF AUDIT

Except for the qualification below, we conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance that the termination settlement proposal is free of material misstatement. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the termination settlement proposal;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance.

We evaluated the contractor's incurred costs under this contract using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR),
- CAS Board rules, regulations and standards; and
- Contract Terms and Conditions.

We consider Unisys's USFGG labor and accounting systems to be inadequate in part. These outstanding deficiencies could adversely affect the organization's ability to record, process, summarize, and report direct labor costs in a manner that is consistent with applicable government contract laws and regulations. The scope of our examination reflects our assessment of control risk and includes tests of compliance with laws and regulations that we believe provide a reasonable basis for our opinion.

QUALIFICATION

Unisys' USFGG Fiscal Year (FY's) 2004 and FY 2005 incurred cost audits of direct costs and indirect expense rates have not yet been completed. Therefore, we have qualified our audit report to the extent that the FY's 2004 and 2005 audit of direct costs and indirect expense rates may result in additional questioned costs.

RESULTS OF AUDIT

In our opinion except for the above qualification, the incurred costs examined under CPFF Delivery Order No. PBFC01-DO-04-0143, for the Development and Implementation of the Premium Practitioner Services (PPS) System, contain $146,628 of unallowable costs. These questioned costs are associated with the use of the actual indirect rates instead of the forward pricing indirect rates, unallocable facility costs and unsupported purchased labor costs. Details of our evaluation and questioned costs are presented in the Exhibit on the following page.

We discussed the results of our audit with Mr. Scott Parr, Manager, Government Policy and Mr. William Wiley, Manager, Government Compliance in an exit conference held on September 15, 2006. The contractor's representatives reserve the right to respond to the results of our examination at a future date.

Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

Integrated Management Resources Group (IMRG), Inc.

Report on PBGC's Contract Administration of the IMRG Contract CT-03-0652

December 7, 2007

2008-4/CA-0033-2

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

MEMORANDUM AUDIT REPORT

December 7, 2007

To: Susan Taylor
PBGC Contracting Officer

From: Luther Atkins Luther Atkins
Assistant Inspector General for Audits

Subject: Audit of PBGC's Administration of IMRG Contract

This year we conducted an audit of the Integrated Management Resource Group (IMRG) contract CT-03-0652 that was a five-year auditing services contract for which PBGC paid more than $19 million. We recently provided you an audit report of the costs incurred on this contract and identified questioned costs of about $167,459 (2007-8/CA-0033-1). Your office and mine are currently working to resolve those identified questioned costs.

This report presents our audit findings with respect to how well PBGC administered this contract. As you know, contract administration is critical to making sure that PBGC gets what it has contracted for and that the contractor is held accountable for providing the products and services articulated in the contract. Likewise, PBGC assigns Contracting Officer's Technical Representatives (COTR's) and contract monitors to assist you in ensuring that PBGC is not overcharged and receives what it has paid for under the contract. The overall objective of this performance review was to evaluate the effectiveness of PBGC's contract administration and oversight of IMRG contract CT-03-0652, including determining whether:

1. The contractor verified qualifications and experience of their employees assigned to the PBGC contract; and

2. The COTRs adequately monitored contractor performance and payment.

RESULTS IN BRIEF

PBGC needs to improve its administration of the IMRG contract by holding the contractor accountable for complying with the contract terms and better monitoring the performance and payment. We identified two root causes for the $167,459 costs we questioned in the incurred cost audit report:

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

- The COTRs did not adequately monitor IMRG's performance and payment resulting in unallowable costs of $19,778.

We are making recommendations that will strengthen the contract administration function so the contractors will do a better job of verifying the education and experience of their employees and PBGC COTRs and contract monitors will do a better job of providing contract oversight. PBGC's Contracting Officer agreed with our recommendations and has started taking corrective actions.

BACKGROUND

PBGC entered into a labor-hour contract with IMRG to conduct auditing services on trusteed plans and non-trusteed standard terminations for the PBGC. This contract required IMRG to provide professional staff to conduct a series of audits relating to pension plan information that PBGC uses to determine the final benefit for each plan participant.

Under a labor-hour contract, the contractor is reimbursed for every hour worked by its employees at a fixed rate for each position specified in the contract. The fixed rate includes direct labor, associated indirect costs and fees. These rates are often referred to as labor category rates.

Under these types of contracts, the government bears the performance risk in that the contractor is only responsible for providing qualified personnel and does not have any incentive for cost control or the efficiency of the work. As a result, COTRs should place special emphasis on monitoring the work performed under these types of contracts to ensure that efficient methods and effective cost controls are being used. Any concerns should be raised to the Procurement Department.

AUDIT RESULTS

Verification of Education and Experience of IMRG's Personnel Was Inadequate

Overall, we found that PBGC and IMRG's process for verifying the education and experience of personnel assigned to the PBGC contract was inadequate and needs improvement. The contractor, IMRG, did not always verify the accuracy of education and experience information for each of their personnel. Adding to this problem, we found the COTRs assigned to this contract were not required to assess the contractor's system of quality control to ensure that personnel assigned to the PBGC contract met the requirements of the contract. We did not see any independent verification on the part of PBGC or the COTR. Additionally, we found erroneous information recorded on the resumes and/or employment applications. As a result, we questioned $147,681 in personnel costs. Further, COTRs for the IMRG contract could have provided more oversight of the contractor to prevent the assignment of contractor personnel who did not have the required education or experience as required under the contract. However, PGBC does not provide its COTRs with a contract administration plan or a checklist to guide them in carrying out this responsibility.

We tested the information for 132 employees from IMRG's employment files and found:

- Six (6) with erroneous information recorded on their resume and/or employment application;

- Eight (8) who did not meet minimum education and/or experience requirements under the terms of the contract; and

- Of the 8 employees who did not meet minimum contract requirements, we could not question the costs for 3 employees because of an oversight by PBGC staff when drafting a contract modification.

We found that IMRG did not always verify the accuracy of information for each of their employees, or employment candidates, listed on resumes and employment applications before placing them on the PBGC contract. Such information that may not have been verified included:

- college graduation;
- degree in accounting, or 24 hours in accounting courses;
- accuracy of employment history, such as type of business, dates of employment, work performed, title/level in company, and supervisory status; and
- reference check with past employer.

The COTR also relied on unverified information when IMRG used the information to represent to PBGC that the proposed contractor employees met the qualifications in specific labor categories. This condition resulted in the (1) payment of PBGC funds to IMRG for unqualified personnel; and (2) identification of a vulnerability or internal control weakness on the part of the Procurement Department and the COTR.

During the interview process, the COTRs stated they do not use a contract administration plan that includes a set of instructions or work steps to monitor contractor performance. The COTRs also stated they did not perform site visits at IMRG's central location, or any of the contractor's locations, where financial and payroll records are maintained to validate against the receipt of contractor invoices and supporting documentation.

Additionally, the COTRs told us they rely on the resumes provided by IMRG officials to approve or disapprove of personnel placed on the PBGC contract and that they did not evaluate IMRG's process for assigning personnel on the contract. Without collaborating evidence, there can be no assurance that information reported on the resume is accurate.

The Office of Federal Procurement Policy (OFPP) states in their Best Practices Guide that the development of a contract administration plan is essential for good contract administration. The plan can be simple or complex but must specify what the performance outputs of the statement of work are and describe the methodology to conduct the inspections. It provides a systematic and structured method for the COTR to evaluate services and products that contractors are required to furnish. It also includes appropriate use of pre-planned or unscheduled inspections (i.e., site visits). This saves time and resources because the COTR is not monitoring the mundane, routine portions of the contract, rather is focusing on implementing specific steps in the contract administration plan. Contract administration plans are to be used by the COTRs on a daily basis.

We did find that the COTRs are provided with a written document or letter which outlines the responsibilities of the COTR for any given contract. However, we believe that more specific work steps are needed. One alternative is to document the steps in a uniform contract administration plan as suggested in the OFPP Best Practices Guide.

The Contracting Officer stated resources are heavily devoted to pre-award activities which become more imperative in meeting the agency's mission. As a result, some post-award functions are accomplished based on the availability of resources, and in some cases, resources have not been available to fully perform all oversight and monitoring activities. The Procurement Department is in the process of developing a COTR Handbook and Checklist to assist them in monitoring contractor performance. The Contracting Officer intends in the first quarter of FY 08 to conduct post-award conferences for all new major awards to help ensure that contractors fully understand their contract requirements from the beginning.

We believe these planned corrective actions are good steps in the right direction. The establishment of a COTR Handbook and Checklist will help all interested parties understand the contract requirements and help do their jobs more efficiently and effectively.

Recommendations:

- We recommend that the Contracting Officer take steps to verify that contractor personnel assigned to PBGC contracts meet the required educational and experience requirements in the contracts.

- We recommend that the Contracting Officer develop a written document or requirements, such as a contract administration plan, for COTRs use in determining the adequacy of the contractor's process for assigning their personnel to PBGC contracts.

Agency's Comments

Management agreed with this recommendation and will revise their existing COTR delegation letter to clarify and emphasize the requirement for the COTR to review the contractor's plan and process to meet the requirements of the contract where required educational and experience requirements are included therein. They expect to complete these corrective actions by the second quarter of this fiscal year.

The agency requested that we consolidate both recommendations into a single recommendation because they were interrelated.

OIG's Response

We agree with the Agency's comments that the recommendations above are interrelated and will consolidate them into one recommendation as follows:

We recommend that the Contracting Officer take steps to verify that contractor personnel assigned to PBGC contracts meet the required educational and experience requirements in the contracts and develop a written document or requirements, such as a contract administration plan, for COTRs use in determining the adequacy of the contractor's process for assigning their personnel to PBGC contracts **(PD 102)**.

The COTRs did not Adequately Monitor IMRG's Performance and Payment

Over the four year period audited (FYs 2003-2006), the COTRs assigned to the IMRG contract, stated they did not formally evaluate contractor performance. Specific task orders for contract deliverables were approved by managers of the Trusteeship Processing Divisions (TPD) who requested the work. The TPD managers periodically interacted with IMRG personnel about performing the necessary steps to complete the specific task order. As a result, the COTR did not always have up to date information or frequent communication with IMRG personnel on the specific task order or the TPD managers regarding contractor performance.
From our review of the contract, there are no provisions in the contract for anyone other than the Contracting Officer or COTR to accept final acceptance of any reports or other deliverable items required under the contract. Rather, section E.2 states:

> *"All deliverable items are to be furnished to the Contracting Officer's Technical Representative (COTR) or to a PBGC personnel designated by the COTR to receive a specific deliverable.........Final acceptance of any reports or other*

deliverable items required under this contract will be made in writing and may only be made by the COTR or Contracting Officer".

The process to monitor performance and accept deliverables for this IMRG contract diminishes the COTR's contractual role. While the contract permits the COTR to designate someone other than himself to receive a specific deliverable, there is no authority in the contract for the TPD manager to approve and accept contract deliverables. Moreover, the Contracting Officer has a direct relationship with the COTR through her delegation of responsibilities. We confirmed there are no delegations from the Contracting Officer to the TPD managers.

Section 16.601(b)(1) of the Federal Acquisition Regulations (FAR) states..."Government surveillance of contractor performance is required to give reasonable assurance that efficient methods and effective cost controls are being used." Additionally, the OFPP states contract monitoring is enhanced when COTRs report on the contractor's performance. From lessons learned, the OFPP states such review of and reporting on performance can include:

- periodic site visits where the COTR performs a head count of contractor employees;
- examining time cards and sign-in sheets; and
- speaking with the contractor concerning the progress of their work.

Many agencies have found that documenting surveillance and monitoring is key to the contract administration process.

For the payment process, we concluded the COTRs can perform additional steps which will aide them in identifying and preventing the authorization of improper payments, such as employees not accounting for a lunch period. From our sample of 13 monthly invoices, we compared employees' timesheets with IMRG's payroll records to ensure that the lunch period was not charged to the contract. We found some IMRG employees working more than 5 hours and not recording the required ½ hour lunch break, thereby charging that time to PBGC in violation of the contract. As a result, we questioned $19,778.

We did find that the COTRs reviewed invoice submissions for mathematical accuracy and they ensured funds were available for payment. However, without some IMRG record showing the total hours posted in their reporting system for each employee to compare against the timesheets submitted, the COTR would not be aware that the lunch period time was charged to the PBGC contract.

Based on discussions with the contract specialist, we also learned there is no formal system for measuring the COTR's performance on their monitoring of contractor's performance and payment.

<u>Recommendations</u>

- We recommend the Procurement Department issue written guidance to persons acting as technical monitors and assisting in the contract deliverable process. The guidance should outline their duties and responsibilities and also be linked to the terms and provisions of the contract **(PD 103).**

- We recommend the Contracting Officer and COTR for each department collaborate to include procedures on the contract administration plan to ensure contract employees who work 5 hours or more do not charge 30 minutes for lunch to the PBGC contract **(PD 104).**

- The Contracting Officer and officials for each department should collaborate on developing a performance goal and objectives to assess the COTR's performance on monitoring contractors **(PD 105).**

Agency's Comments

Management agreed with each of the three (3) recommendations above and will complete corrective action by the third quarter of this fiscal year.

Other Matters

<u>Overtime Approved But Disallowed by the Contract.</u>

We found a provision of the contract that was not enforced because PBGC officials stated it conflicted with the contractor's proposal that was incorporated into the contract.
Specifically, section H.7 of the contract stated that no overtime was to be authorized. However, the contractor's proposal stated that overtime was authorized. The COTRs and the contract specialist stated that overtime was allowable based on a clause in the contract which linked the contractor's proposal to the contract. As a result, the COTRs and the TPD managers authorized payments of $619,000. Because the PBGC approved the payments, we could not question these costs that violated the contract terms.

Section G.3 states:

> *The contractor shall, in meeting the requirements of this contract, perform in accordance with their technical and cost proposal to the PBGC. That proposal is incorporated in this contract by reference.* ***However, to the extent that anything in the proposal is in conflict or is inconsistent with the contract the clauses of this contract shall be controlling and shall supersede anything in the proposal.***

Based on the clear contract language above, we disagree with PBGC's interpretation that the contractor's proposal allowing overtime took precedence over the contract's specific prohibition of overtime.

Inconsistency in Qualifications.

Additionally, in our draft audit report on IMRG, we identified 8 IMRG employees that did not meet the minimum education and/or experience requirements. For junior auditors, the contract required a Bachelor's Degree in accounting. For senior auditors, through a modification to the contract, 24 hours of courses taken in accounting could substitute for a Bachelor's in accounting. It seems contradictory to have a lesser requirement for senior auditors than for juniors. For this reason, we did not question costs for 3 junior auditors who did not have accounting degrees (but did have the 24 hours of courses taken in accounting) as failure to include junior auditors in the contract modification was likely an oversight.

Recommendations

- We recommend the Contracting Officer communicate to the IRMG COTR that if there are conflicts between the contractor's proposal and contract provisions, the contract provisions are controlling **(PD 106)**.
- To the extent this is a common contract clause, we recommend the Contracting Officer communicate this conflict resolution to all COTRs and require consultation with the Procurement Department about identified contract conflicts **(PD 107)**.
- We recommend the Contracting Officer strengthen its pre-award process to include steps to review, note and resolve conflicting provisions between the contractor's proposal and the contract before contract award **(PD 108)**.

Agency's Comments

Management agreed with each of the three (3) recommendations above and will complete corrective action in the third quarter of this fiscal year.

Pension Benefit Guaranty Corporation

Office of Inspector General

Agreed-Upon Procedures Report

TECHGUARD SECURITY, LLC.

Report for Costs Incurred by TechGuard Security under
Contract PBGC01-CT-05-0739
For Fiscal Years ended September 30, 2006 and 2007

September 30, 2008

2008-11/CA-0047

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

September 30, 2008

MEMORANDUM

To: Susan Taylor, Contracting Officer
Procurement Department

From: Luther Atkins
Assistant Inspector General for Audit

Subject: Agreed-upon Procedures Report for Costs Incurred by TechGuard under Contract No. PBGC01-CT-05-0739 for Fiscal Years ended September 30, 2006 and 2007.

This memorandum transmits report number 2008-11/CA-0047 prepared by Williams, Adley & Company, LLP at the request of the Office of Inspector General (OIG). Williams, Adley & Company applied agreed-upon procedures to assist OIG in evaluating whether costs incurred by TechGuard in the fiscal years ending September 30, 2006 and 2007 under Contract No. PBGC01-CT-05-0739 were allowable, reasonable, supported and consistent with contractual provisions. The procedures performed and results are discussed in the attached report.

Williams, Adley's report questions $82,141 in costs related to the following issue:

- TechGuard did not meet the PBGC experience requirements for three employees and education and prior employment verifications were not performed for two TechGuard employees.

We recommend the Director, Procurement Department:

- Seek a refund of $82,141 from TechGuard **(PD 118)**;
- Review invoices that were submitted and question all costs related to these individuals **(PD 119);**
- Discuss the contract terms with TechGuard and inform them that the personnel working on the PBGC contract must meet the specific PBGC requirements. If applicable, TechGuard should reimburse PBGC for any additional costs for positions that do not meet the minimum experience requirements **(PD 120)**;
- Obtain documentation of employment/educational verification from TechGuard officials for these individuals. Pending receipt of documentation, these individuals should not be assigned to PBGC contracts **(PD 121)**; and
- Determine the labor costs and total dollars billed to PBGC that should be refunded for individuals whose employment and/or education cannot be verified.

Pending verification of authenticity, these individuals should not be assigned to work on PBGC contracts **(PD 122).**

The report recommends corrective actions including your determination of the allowability of the questioned costs and initiation of necessary collection actions. Both the OIG and Williams Adley are available to discuss the report's findings and provide additional documentation.

Please respond within 30 days of receipt of this report on corrective actions planned and/or taken to resolve the recommendations and questioned costs.

cc: Stephen Barber, Chief Administrative Officer
Patsy Garnett, Chief Information Officer
Marty Boehm, Director, Contracts and Controls Review Department

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Williams, Adley & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Inspector General of the
Pension Benefit Guaranty Corporation (PBGC)

We have performed the procedures enumerated on page 4, which were agreed to by your office to assist you in evaluating whether costs incurred by TechGuard Security, LLC (TechGuard) under contract number PBGC01-CT-05-0739 were allowable, reasonable, supported and consistent with contractual provisions for fiscal years (FYs) ended September 30, 2006 and 2007. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described on page 4 either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the incurred costs of TechGuard. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of PBGC's Office of Inspector General (OIG), PBGC's Procurement Department and TechGuard and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company, LLP

Washington, DC
July 29, 2008

EXECUTIVE SUMMARY

We have applied certain agreed-upon procedures solely to assist the OIG in evaluating whether costs incurred by TechGuard Security, LLC (TechGuard) in providing services on specific projects and ongoing efforts that are targeted to provide technical support of PBGC's Information Systems Security Program were allowable, reasonable, substantiated and consistent with contractual provisions for the FYs ended September 30, 2006 & 2007. Our approach to this engagement entailed judgmentally selecting a sample from each FY, 2006 and 2007, and evaluating the accuracy, reasonableness and allowableness of direct labor charges and other direct costs billed to PBGC for FYs 2006 and 2007.

Based on the application of the agreed-upon procedures enumerated on page 4, we have questioned costs relating to the following issues:

- TechGuard did not meet the PBGC experience requirements for three employees and education and prior employment verifications were not performed for two TechGuard employees. Questioned costs are $82,141.

Details, including quantification of the questioned costs, are discussed in the Findings and Recommendations section of our report.

BACKGROUND

The Pension Benefit Guaranty Corporation (PBGC) was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, 29 U.S.C. Sections 1301-1461, ERISA Sections 4001-4402, to insure the pension benefits of participants in certain defined benefit pension plans. PBGC protects the pensions of more than 44 million Americans in approximately 35,000 defined benefit pension plans.

PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for the plans.

PBGC has two major roles: (1) administering the plan termination process including providing plan sponsors and administrators with guidance for compliance with legal termination rules: and (2) paying ERISA Title IV benefits to plan participants and their beneficiaries when a plan terminates with insufficient assets to pay the benefits. To carry out its operations, PBGC relies heavily on the services of contractors whose headquarters and field employees account for over half of the workforce involved in processing PBGC's workloads.

PBGC entered into a labor-hour contract with TechGuard to provide technical support of its Information Systems Security Program. Specifically, TechGuard was tasked with the following requirements:

- Maintain a high level awareness of security regulations;
- Develop system configuration guidelines;
- Conduct and analyze risk assessments;
- Conduct penetration testing and analysis;
- Recommend security improvements based on government directives, guidelines, and industry best practices; and
- Identify system vulnerabilities and recommend corrective action.

SCOPE

We have applied certain agreed-upon procedures to assist the OIG in evaluating whether costs incurred by TechGuard in providing services on specific projects and ongoing efforts that are targeted to support the PBGC Information System Security Program were allowable, reasonable, supported and consistent with contractual provisions. This agreed-upon procedures engagement covered the FYs ended September 30, 2006 and 2007, and was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and Government Auditing Standards, issued by the Comptroller General of the United States. It is understood that this report is solely for the PBGC OIG and Procurement Department's information and is not intended to be, and should not be, used by anyone other than these specified parties.

The following agreed-upon procedures were performed:

1. Obtained and reviewed copies of contracts, amendments, invoices and time records provided by TechGuard and PBGC OIG for FYs 2006 and 2007.

2. Scheduled all personnel and labor hours selected in our judgmental sample and evaluated the accuracy of billed labor hours and billed labor rates.

3. Compared the aforementioned scheduled labor hours, by employee, selected in the sample months to time records provided by TechGuard, and quantified and documented any discrepancies.

4. Reviewed time sheets for non-work related activities billed during FYs 2006 and 2007 and calculated potential unallowable costs, if applicable.

5. Obtained copies of personnel files, and other documentation of employees billed to the PBGC contract and verified experience and education required by the contract.

The effective date of the base contract was August 1, 2005. At the end of the FY 2007, the contract had been amended 12 times and obligations for all contract years totaled $2,929,508. TechGuard billed PBGC approximately $1.3 million (Exhibit 1, Schedule of Invoices Billed).

The total incurred costs billed by TechGuard to PBGC reviewed for the sample months were $602,239 (Exhibit 2, Schedule of Invoices Sampled). The total questioned costs resulting from the application of our agreed-upon procedures are $82,141 (Exhibit 4, Schedule of Total Questioned Costs). These questioned costs represent 6.25% of the total incurred costs of $1,313,878 billed to PBGC for FYs 2006 and 2007 (Exhibit 1, Schedule of Invoices Billed).

FINDINGS AND RECOMMENDATIONS

1. TechGuard Employees Did Not Meet Experience Requirements

We reviewed the resumes of five TechGuard employees working on the PBGC contract and compared their education and experience to the qualification requirements stated in the contract. We found that three of the five employees reviewed did not have the level of experience required for the labor categories they were billed under. The table below summarizes the experience requirements stated in the contract, the actual experience levels of the employees, and the questioned costs associated with these individuals who were found not to meet the labor category requirements.

Labor Category	Required Experience	Actual Experience	Questioned Cost
Program Manager	15 years total experience preferred with 10 years of IT specific experience	No documented IT experience	$ 5,834
IT Security Technical Lead*	8 years total IT experience preferred with 4 years of IT specific experience	Approximately 1 year total IT experience	$ 23,643
Network/System Security Analyst*	4 years total IT experience preferred with 1-2 years of IT specific experience	Approximately 1 year total IT experience	$ 43,461
Subject Matter Expert	8 years total experience with 5 years specific experience	2 years total experience. No specialized experience	$ 9,203
		Total Questioned Costs	**$ 82,141**

*One of the employees worked as both the Network/System Security Analyst and the IT Security Technical Lead.

The total questioned costs of $82,141 are related to the 12 invoices we tested and represented 6.25% of the $1,313,878 paid by PBGC to TechGuard from October 2005 to September 2007. Please see Exhibit 3 for a detailed computation of the questioned costs. We also found that TechGuard did not routinely perform verification of prior employment or authenticity and academic verification checks of its employees. Our review disclosed that the company did not perform an employment suitability investigation for two employees assigned to the PBGC contract. The individuals worked as the Program Manager/Network System Analyst/Subject Matter Expert and the Information Security Engineer. We also noted that these individuals did not have current security clearances when they were placed on the PBGC contract.

TechGuard officials indicated that all resumes were presented to and approved by the PBGC COTR, however, Section H.2, paragraph (b) in the contract between PBGC and TechGuard states:

"The Contractor shall be responsible for providing personnel under this contract who meet or exceed the minimum criteria. The COTR reserves the right to evaluate the acceptability of all Contractor personnel qualifications as they relate to the minimum qualifications stated."

While the above contract requirement states that the COTR reserves the right to evaluate the acceptability of all Contractor personnel qualifications as they relate to the minimum qualifications stated, it does not remove the burden from the Contractor to provide personnel who meet or exceed the minimum qualifications. In fact, Section G.5 of the contract states that:

"The COTR is not authorized to sign any contractual instruments or to direct any action that results in a change in the scope, price, terms or condition of the contract."

Finally, standard good business practice requires an employer to verify the authenticity of employee background information prior to presenting and representing such information as complete, accurate and reliable to the Government. Failure on the part of an employer to perform background investigations on its employees could cause Government officials to make decisions based on incorrect information.

Recommendations

We recommend that the PBGC Contracting Officer:

- Seek a refund of $82,141 from TechGuard.
- Review invoices that were submitted and question all costs related to these individuals.
- Discuss the contract terms with TechGuard and inform them that the personnel working on the PBGC contract must meet the specific PBGC requirements. TechGuard should reimburse PBGC for any additional costs for positions that do not meet the minimum experience requirements per the PBGC Defined Labor Category.
- Obtain documentation of employment/educational verification from TechGuard officials for these individuals. Pending receipt of documentation, these individuals should not be assigned to PBGC contracts.
- Determine the labor costs and total dollars billed to PBGC that should be refunded for individuals whose employment and/or education can not be verified. Pending verification of authenticity, these individuals should not be assigned to work on PBGC contracts.

TechGuard Response

With respect to the portion of the finding related to employees not meeting experience requirements, TechGuard did not concur with the finding. In their written comments, TechGuard said that they had provided "street" resumes to the auditors that did not reveal additional experience or other pertinent information regarding the individuals' suitability for the position. This additional experience information was obtained by TechGuard during interviews with the candidates but was not documented in the resumes. Additionally in their written comments, TechGuard provided detailed information regarding the education and experience qualifications of the IT Security Lead, Network/System Security Analyst, Subject Matter Expert, and Program Manager as justification for the employees' suitability for the position. TechGuard said that the COTR had determined that the individuals were qualified for the positions but their resumes were not updated to reflect the additional information obtained during the interview process.

With respect to the portion of the finding related to not performing an employment suitability investigation (background check) for two employees, TechGuard acknowledged in their written comments that they were unable to provide a copy of the background check for two employees, but did not concur with our statement that they did not routinely perform verification of prior employment or education. TechGuard said that they began performing background checks of all employees in 2002 as an internal security best practice and example to the industry. TechGuard said they have and continue to perform background checks or verification of security clearances prior to hiring for any position at TechGuard security. The background check for one of the two employees noted was redone subsequent to the audit, but TechGuard is unable to redo the other background check because the individual is no longer an employee of TechGuard.

In their written comments, TechGuard also stated that subsequent to the auditor's draft report dated April 2008, they implemented corrective action to include: (1) hiring a new recruiter, (2) updating resumes based on additional information obtained during interviews and formatting resumes into uniform style prior to submission to the COTR, and (3) assigning its Controller to head TechGuard's Internal Quality Control Board.

TechGuard confirmed that its recruiting process already includes verification of active government clearance or a background check before a candidate is submitted to the COTR for approval. TechGuard also verified that all employees currently working on the PBGC contract have had a background check or maintain an active security clearance.

IPA's Analysis

While TechGuard has implemented controls to improve its recruiting process, we did not receive any supporting documentation, to corroborate the experience documented in TechGuard's written response. In addition, the resumes that were originally provided do not fully support the experience required. While they may be street resumes, they either show large breaks in employment that the response is counting as full years [redacted], they do not show any experience related to the position [redacted], the education received may not be in the related field and cannot be used as a substitute for experience [redacted], and experience being counted is unrelated to the IT field [redacted]. Finally, we have received no evidence of the Contracting Officer's approval of the individuals that did not meet the education and experience requirements as stated in the contract. As a result, this portion of the finding and questioned costs stand.

No further action is required with respect to performing background checks as a result of the actions taken by TechGuard management.

Pension Benefit Guaranty Corporation

Office of Inspector General

Agreed-Upon Procedures Report

Spectrum International, Inc.

Report for Costs Incurred by Spectrum International, Inc. under
Contract PBGC01-CT-03-0654
For Fiscal Years ended September 30, 2006 and 2007

Notice: Distribution of This Report is Restricted

This report may contain proprietary information subject to the requirements of 18 U.S.C. 1905 or 5 U.S.C. 552a. This report is issued to the Office of Inspector General (OIG) of the Pension Benefit Guaranty Corporation (PBGC) for further distribution to PBGC's Procurement Department. The report should not be released to the public or other parties without consent of the OIG. The information in this report should not be used for other than intended purposes without first discussing its applicability with the OIG.

September 30, 2008

2008-12/CA-0050

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

September 30, 2008

MEMORANDUM

To: Susan Taylor, Director
Procurement Department

From: Luther Atkins
Assistant Inspector General for Audit

Subject: Agreed-upon Procedures Report for Costs Incurred by Spectrum International, Inc. under Contract No. PBGC01-CT-03-0654 for Fiscal Years ended September 30, 2006 and 2007.

This memorandum transmits report number 2008-12/CA-0050 prepared by WithumSmith+Brown (WSB) at the request of the Office of Inspector General (OIG). WSB applied agreed-upon procedures to assist OIG in evaluating whether costs incurred by TechGuard in the fiscal years ending September 30, 2006 and 2007 under Contract No. PBGC01-CT-03-0654 were allowable, reasonable, supported and consistent with contractual provisions. The procedures performed and results are discussed in the attached report.

WSB's report questions $114, 225 in costs related to the following issues:

- Three Spectrum employees did not meet the minimum experience qualifications required in the contract and results in questioned costs of $86,669; and

- One Spectrum employee's actual education did not correspond to the education stated in an updated resume submitted to PBGC and results in questioned costs of $27,556.

We recommend the Director, Procurement Department:

- Follow up on Spectrum officials responses that they have begun to implement written procedures that will require any timesheet modifications to be initialed and dated by the approving supervisor. In addition, they stated the employee timesheet has been re-designed to include space for employees to date their timesheets when signing them **(PD 110)**;
- Initiate collection efforts on $114, 225 for three employees that do not meet the experience or education requirements of the contract **(PD 111);**
- Follow up on proposed corrective actions by Spectrum officials for developing and implementing written policies and procedures for comparing an applicant's

education and experience to the contract requirements and documenting the analyses **(PD 112)**;

- Follow up on proposed actions to develop and implement written policies and procedures for verifying the education and experience indicated by the applicant on his or her resume and/or applications **(PD 113);**
- Require Spectrum officials to provide evidence that the four individuals identified in the report meet education and experience requirements of the contract **(PD 114);**
- Spectrum officials provide to PBGC a detailed corrective action plan with timeframes for completion for the necessary steps to implement written policies and procedures for performing limited scope background checks prior to submitting personnel for approval by PBGC; and that PBGC monitor the progress of the corrective action plan and follow up when necessary **(PD 115);**
- Follow up to ensure Spectrum's employee handbook is updated to disclose a requirement that a half hour lunch must be backed out for time worked in excess of five hours per day **(PD 116);** and
- Require Spectrum officials to develop written accounting policies and procedures, to include such areas as payroll, timekeeping, invoicing, human resources, and personnel files. These written procedures should provide for independent checks of key accounting records, such as recalculating invoices and tracing invoices to supporting documentation **(PD 117).**

The report recommends corrective actions including your determination of the allowability of the questioned costs and initiation of necessary collection actions. Both the OIG and WithumSmith+Brown are available to discuss the report's findings and provide additional documentation.

Please respond within 30 days of receipt of this report on corrective actions planned and/or taken to resolve the recommendations and questioned costs.

cc: Stephen Barber, Chief Administrative Officer
Judith Starr, PBGC General Counsel
Marty Boehm, Director, Contracts and Controls Review Department

ACRONYMS AND ABBREVIATIONS

AUP	Agreed-upon procedures
FY	Fiscal Year
ERISA	Employment Retirement Income Security Act of 1974
GED	General Equivalency Diploma
HR	Human Resources
OGC	Office of General Counsel
OIG	Office of Inspector General
PBGC	Pension Benefit Guaranty Corporation
Schedule	Schedule of Claimed Costs
Spectrum	Spectrum International, Inc.

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Independent Accountants' Report
<u>on Applying Agreed-Upon Procedures</u>

Ms. Rebecca Anne Batts
Inspector General
Pension Benefit Guaranty Corporation
1200 K Street, NW
Washington, DC 20005-4026

Dear Ms. Batts:

We have performed the procedures described in the *Agreed-Upon Procedures and Results* section of the report, which was agreed to by your office, to assist you in evaluating whether costs incurred by Spectrum International, Inc. (Spectrum) under contract number PBGC01-CT-03-0654 were allowable, reasonable, supported and consistent with contractual provisions for the fiscal years (FYs) ended September 30, 2006 and 2007. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and with *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the *Agreed-Upon Procedures and Results* section of the report, either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the incurred costs of Spectrum. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This report is intended solely for the information and use of PBGC's Office of Inspector General, PBGC's Procurement Department, and Spectrum, and is not intended to be and should not be used by anyone other than these specified parties.

WithumSmith+Brown, PC

August 4, 2008

EXECUTIVE SUMMARY

We have applied certain agreed-upon procedures (AUP) solely to assist the Pension Benefit Guaranty Corporation's (PBGC) Office of Inspector General (OIG) in evaluating whether costs incurred by Spectrum International, Inc. ("Spectrum") during the FYs ended September 30, 2007 and 2006, the last two years of a five-year contract (PBGC01-CT-03-0654), were allowable, reasonable, sustainable, and consistent with contractual provisions. Our approach to this engagement entailed selecting a random sample of 25% of the total invoices billed to PBGC by Spectrum and assessing the accuracy, reasonableness, and allowability of labor charges billed to PBGC for FYs 2007 and 2006.

Based on the application of the agreed-upon procedures detailed on pages four and five we have questioned costs related to the following issues:

- Spectrum did not have policies and procedures to ensure that personnel hired met the minimum personnel qualifications as specified in the PBGC contract relating to education and experience. One employee did not meet the minimum experience qualifications required in the contract, resulting in questioned costs totaling $30,381. In addition, two employees did not meet the minimum experience qualifications required when originally hired. The two employees did meet the requirement during our AUP period based on working on the PBGC contract; we therefore only questioned $56,288 related to these two employees, resulting in total questioned costs of $86,669.

- Spectrum did not adequately compare the résumé or application to the contract requirements, resulting in non-qualified personnel being billed to the contract. One employee's actual education did not correspond to the education stated in an updated résumé submitted to PBGC, therefore we questioned costs totaling $27,556.

The total amount of questioned costs relating to all the issues we identified is $114,225.

Details, including quantification of the questioned costs, are discussed in the *Findings and Recommendations* section of our report. The contractor's response and Independent Accountants' comments on the contractor's response are also included in the Findings and Recommendation section.

We also noted three additional findings, which did not result in any questioned costs:

- Spectrum does not have adequate policies and procedures over its timekeeping system, as evidenced by the numerous instances of correction fluid being used indicating changes on timesheets but with no initials or other acknowledgement of the changes. Specifically, we noted 61 of the 153 (40 percent) timesheets we tested had correction fluid on one or more entries.

- The PBGC contract requires a half-hour lunch break, which is not billable to PBGC, for any employee who works over five hours. There were several instances where employees worked (and billed to PBGC) over five hours and did not record a half-hour lunch break. Although the total dollar amount associated with these instances was insignificant and therefore did not result in questioned costs, Spectrum did not have adequate procedures in place to prevent or detect these errors.

- We noted Spectrum does not have written accounting policies and procedures and has very little segregation of duties, instead relying primarily on the president to perform almost all of the accounting, human resource (HR), financial reporting, and contract management functions.

BACKGROUND

PBGC was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended (29 U.S.C. Section 1301-1461, ERISA Sections 4001-4002), to insure the pension benefits of participants in certain defined benefit pension plans. PBGC protects the retirement incomes of about 44 million American workers in more than 35,000 defined benefit pension plans.

PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for the plans.

PBGC has two major roles: (1) administering the plan termination process including providing plan sponsors and administrators with guidance for compliance with legal termination rules: and (2) paying ERISA Title IV benefits to plan participants and their beneficiaries when a plan terminates with insufficient assets to pay the benefits. To carry out its operations, PBGC relies heavily on the services of contractors whose headquarters and field employees account for over half of the workforce involved in processing PBGC's workloads.

The Office of the General Counsel (OGC) of PBGC contracted with Spectrum under a labor-hour contract PBGC01-CT-03-0654. The scope of this contract encompasses all activities necessary and sufficient to operate and manage the OGC Communications Center in a highly competent, accurate, efficient, and effective manner. The contract was amended 23 times over the contract term. The total amount obligated under the contract was $3,476,626 for the period October 1, 2002 through September 30, 2007. The scope of work and services as identified in the contract consists of services related to the:

- Preparing and maintaining hard copy files;
- Processing electronic and hard copy mail and other documents in connection with the OGC case management system and document imaging system;
- Providing related corporate, legal and administrative services ;
- Utilizing available management tools and metrics to ensure maximum accuracy, efficiency and productivity;
- Supervising contractor personnel; and
- Supporting other related agency initiatives using similar processes and systems.

OBJECTIVE, SCOPE, AND METHODOLOGY

The primary objective of the engagement is to evaluate the costs charged by Spectrum as evidenced by their invoices presented for payment during FYs ended September 30, 2006 and 2007, the last two years of a five-year contract (PBGC01-CT-03-0654) with the PBGC. The contract is a labor-hour contract with no other direct costs and expired September 30, 2007.

The specific objectives of the engagement are to:

1. Determine whether the billed costs are reasonable, applicable to the contract, determined under generally accepted accounting principles and cost accounting standards applicable in the circumstances;
2. Determine whether costs are not prohibited by the contract, by statute or regulation, or by previous agreement with, or decision by, the contracting officer;
3. Determine whether the accounting system is adequate for subsequent cost determinations; and
4. Design the work to provide reasonable assurance of detecting abuse or illegal acts.

AGREED UPON PROCEDURES AND RESULTS

The following procedures were performed for the invoices billed to PBGC by Spectrum for FYs 2007 and 2006 and the related contract, as amended:

Agreed Upon Procedures	Results of Procedures
1. Compared the total amounts invoiced from each fiscal year to the total amount obligated under the contract (including any amendments) and noted any discrepancies.	The total amounts invoiced did not exceed the total amounts obligated under the contract for either FY 2006 or FY 2007.
2. Randomly selected a sample from the universe of FY 2006 and FY 2007 invoices billed to PBGC by Spectrum, assuring a minimum of 25% of the total invoiced amount was selected.	We randomly selected six invoices billed to PBGC by Spectrum. There were 24 invoices in our AUP period which totaled $1,385,574. Our sample of six invoices totaled $348,623, which was 25% of the total. The six sample invoices covered the following periods: Invoice Number: PBGC0307, 03/01/2007 - 03/31/2007 Invoice Number: PBGC0706, 07/01/2006 - 07/31/2006 Invoice Number: PBGC0807, 08/01/2007 - 08/31/2007 Invoice Number: PBGC0206, 02/01/2006 - 02/28/2006 Invoice Number: PBGC1206, 12/01/2006 - 12/31/2006 Invoice Number: PBGC0407, 04/01/2007 - 04/30/2007

The following procedures were performed for each of the sample invoices selected in procedure 2:

Agreed Upon Procedures	Results of Procedures
3. Recalculated each invoice to evaluate whether the invoice is mathematically correct.	Each invoice was mathematically correct.
4. Compared the number of hours billed for each labor category to the supporting time records for all employees billed, and quantified any discrepancies.	The total number of hours billed for each labor category agreed to the supporting timesheets for all employees billed, with one exception noted. On Invoice Number, PBGC1206, the contractor overcharged PBGC 2.25 hours for Computer Operator II. The error was corrected on the next invoice. We verified that the correction was made by reviewing the subsequent invoice (PBGC0107). The total amount of the error was $69.
5. Determined whether the supporting time records included any handwritten adjustments, correction fluid or other visible manipulation.	Of the 153 timesheets for 14 employees included in our sample, we noted that 61 timesheets contained 178 instances of correction fluid use. There were no initials or other acknowledgement of a correction next to the time entries with correction fluid. (See **Finding 1**, pages 6-7)
6. Determined whether the supporting time records contained evidence of an employee or a supervisor signature.	The timesheets in our sample were all signed by the employee and supervisor without exception.
7. Determined for all days worked over 5 hours, whether a 30 minute or longer lunch break was reflected in the time records and not billed to PBGC.[1]	Of the 153 employee timesheets in our sample, there were four instances where an employee worked over five hours a day and did not include a half hour for lunch. (See **Finding 3**, page 11)

[1] According to the contract, when an employee worked over five hours, he or she is required to take a half hour for lunch, which is non-chargeable to PBGC.

AGREED UPON PROCEDURES AND RESULTS

Agreed Upon Procedures	Results of Procedures
8. Compared the labor rates charged on each invoice to the applicable labor rates for each labor category as defined in the contract and related amendments, including any overtime or premium labor rates	The labor rates charged on each invoice agreed to the applicable labor rates for each labor category as defined in the contract and related amendments, without exception.
9. Determined if overtime or premium labor rates charged to PBGC was approved by PBGC in accordance with the contract and related amendments	No overtime or premium labor rates were charged to PBGC for the invoices in our sample.
10. Quantified all non-work related activities included on the time records and billed to PBGC and calculated potential unallowable costs.	No instances of non-work related activities included on the timesheets and billed to PBGC were noted.
11. Determined if the experience and education for each employee billed as indicated in the personnel files and related documentation met the minimum requirements for the applicable labor category billed as specified in the contract and related amendments.	There was no evidence in the files that indicated the employees' experience and/or education were verified for all 14 items tested (e.g. phone calls to reference or prior employers, etc.) For one of the 14 employees, a General Clerk, the experience did not meet the minimum qualifications required by the contract. The employee had approximately four months of office experience, while the position required one year of experience. (See **Appendices 2 and 3,** pages 15-17) For two Computer Operators (Computer Operator A and B), there was no evidence in the personnel files to indicate their experience met the minimum qualifications when originally hired. The personnel files did not include any information on prior office experience. However, by working at Spectrum for at least five years, they were able to meet the experience qualification for their current position as Computer Operator II.
Interviewed selected employees and determined if the education and experience in the personnel files is consistent with the education and experience explained in the interview.	Based on the interviews conducted, another Computer Operator's (Computer Operator C) education did not correspond to the education stated in the résumé submitted to PBGC for Contract RFP No. PBGC01-RP-02-0010 in 2002. The résumé submitted stated that she received her diploma from Eleanor Roosevelt High School. The employee stated and her self-prepared résumé indicated that she attended Eleanor Roosevelt High School but did not graduate or receive a diploma. A General Equivalency Diploma (GED) was later obtained in 2007. (See **Appendix 5,** pages 19-20 and **Finding 2**, pages 7-10)
Quantified total amounts invoiced for FY 2006 and FY 2007 for employees who do not meet the minimum qualifications.	The total amount of questioned costs relating to all the issues we identified was $114,225.

FINDINGS AND RECOMMENDATIONS

1. Company Lacks Adequate Policies and Procedures Over Timekeeping

Spectrum keeps a manual daily sign-in log onsite at PBGC to record the start and end work time (as well as lunch breaks) for each employee. The logs are signed each day by the employee and by the onsite Spectrum project manager. In addition, each employee keeps their own individual timesheet covering one-half of a month, which includes the daily start and end work times for that employee, as well as the number of hours worked each day.

Of the 153 timesheets we tested, covering 12 different time periods, we noted 61 timesheets had one or more instances of correction fluid used to change numbers on the timesheet. These 61 timesheets had a total of 178 instances of correction fluid changes. None of the changes were initialed by the employee or supervisor, or included any explanation for the change. However, we noted the number of hours on the "corrected timesheets" agreed to the hours on the sign-in log.

FAR Part 52.232-7 *Payments under Time and Materials and Labor-Hour Contracts* requires contractors to substantiate hours worked by individual daily timekeeping records. FAR Part 31.201-2 *Determining Allowability* states that a contractor is responsible for maintaining records and supporting documents which are adequate to demonstrate that costs claimed have been incurred and comply with applicable cost principles, and it also requires costs to be in accordance with generally accepted practices appropriate to the circumstances. Generally accepted practices do not permit the use of correction fluid on original source documents without the initials of the person authorizing the change and an explanation for the change if not evident.

Spectrum does not have any written procedures governing the treatment of timesheet changes. The president indicated that because timesheets are used for employee payroll, timesheets are completed 2 days before the end of the pay period based on estimates, and then adjusted (with correction fluid) as necessary based on actual. Also, the president indicated that employees are only allowed to use correction fluid on an entry on a timesheet with a supervisor present. While many of the adjustments were on the last two days of the pay period, a significant portion was performed on other days as well. The president also indicated that other adjustments to timesheets include differences in rounding to the quarter hour. If an employee signs in the daily log at 8:08, and rounds to 8:00 on their timesheet, the supervisor will have the employee change it to 8:15.

Spectrum did not have a procedure in place to date the timesheets at the time that they are signed, as required by generally accepted practices, making it impossible to determine if timesheets are being signed prior to the completion of their timesheet.

Timesheets represent the document of record identifying the number of hours an employee has worked in a given period which is then billed to PBGC. Timesheets with evidence of manipulation without evidence of approvals or explanations of changes calls into question the accuracy of the time being reported and billed, and can result in questioned costs.

<u>Recommendation</u>

We recommend that PBGC's Procurement Director require Spectrum to develop and implement written policies and procedures so that adjustments to timesheets do not need to be performed on a regular basis, and that corrections to timesheets are initialed and dated by the appropriate person as evidence of approval to the change.

Contractor's Response

With regard to corrections to employee timesheets, these changes were made for several important reasons: 1) to ensure that the start and end times recorded on the timesheets matched the daily sign-in logs; 2) to ensure that employee start and end times were in compliance with our timekeeping procedures, which are based on quarter-hours; and 3) to correct instances in which an employee's actual start and end times differed from what had been recorded on the timesheets. All instances of whiteout and corrections on the timesheets were authorized and witnessed by either the Communications Center Supervisor and/or Project Manager. However, the changes were not necessarily initialed and dated to confirm the approval.

In response to this finding, Spectrum has begun to implement written procedures that will require any timesheet modifications to be initialed and dated by the approving supervisor. In addition, the employee timesheet has been re-designed to include space for employees to date their timesheets when signing them.

Independent Accountants' Comments on Contractor's Response

The contractor's proposed actions are responsive to our recommendation. We reaffirm that PBGC's Procurement Department should follow-up to ensure the proposed actions have been implemented.

2. Weaknesses in HR Processes Resulted in Non-Qualified Personnel Billed to Contract

Spectrum does not have adequate policies and procedures to ensure that personnel hired meet the minimum education and experience qualifications specified in the PBGC contract. This issue was pointed out in the 2002 CCRD report on Spectrum. Although there was no follow-up done by PBGC contracting officials, these problems should have been corrected. In addition to not verifying information provided on an employee's résumé or application, Spectrum does not adequately compare the résumé or application to the contract requirements. Finally, Spectrum does not have a procedure to perform its own background check or investigation, but instead relies on the government's process.

Spectrum's PBGC contract Part H.6 PBGC-37-002 *Staffing Approval*, states the contractor is responsible for providing personnel under this contract who meet or exceed the minimum requirements, and that dollars associated with personnel found not to meet the labor category qualifications will be disallowed.

As a result of these and other weaknesses, we noted the following from documentation in Spectrum's files and inquiries of Spectrum personnel[2]:

a. For one (General Clerk) of the 14 employees, the experience did not meet the minimum qualifications for the general clerk position. The employee had approximately 4 months of office experience, while the position required 1 year of experience (see Appendix 2). We are therefore questioning cost for the employee's first eight months, which were needed to give him the one year of experience prior to being charged to the PBGC contract. The questioned cost is $30,381 (see **Appendix 3**).

b. For two (Computer Operator II) of the 14 employees, the experience did not meet the minimum qualifications for experience needed when originally hired at a Clerk position.

   One of these employees was hired in 1999 as a Record Clerk (equivalent to General Clerk), which required a high school diploma and one year of experience in an office environment (see Appendix 2). The application in the personnel file did not contain any evidence of office experience. During

[2] We did not independently verify any representations of experience or education.

our AUP period (October 1, 2005 to September 30, 2007), the employee was billed to PBGC as the Computer Operator II position, though there was no evidence in the file when the employee was promoted to this position. The Computer Operator II position requires three years of experience (in lieu of additional education), which the employee did fulfill by the beginning of our AUP period (October 1, 2005), by virtue of working at Spectrum on the PBGC contract for approximately six years (see Appendix 2).

The second employee was hired in 2001 as a Record Clerk, and was promoted to Computer Operator II in 2002. The application in the personnel file did not provide evidence of office experience to meet the requirements for a Records Clerk in 2001 nor the requirements of the Computer Operator II position in 2002. During our AUP (October 1, 2005 to September 30, 2007) period, the employee was billed to PBGC at the Computer Operator II rate. By the beginning of our AUP period (October 1, 2005), the employee fulfilled the experience requirements for the Computer Operator II position by working at Spectrum on the PBGC contract for approximately four years.

As a result, for these two employees billed to PBGC during FY 2006 and FY 2007, Spectrum was not in compliance with contract terms and requirements. Therefore, for the AUP period (October 1, 2005 to September 30, 2007) we are questioning the difference in the labor rates between the Computer Operator II position billed and the lower position General Clerk I, for a total of $56,288 (see **Appendix 4**).

c. Based on the interviews conducted, one employee's (Computer Operator II) education did not correspond to the education stated in the résumé submitted to PBGC for Contract RFP No. PBGC01-RP-02-0010 in 2002. The employee stated that she went to high school; however she never graduated but completed her GED certificate in 2007. Therefore, Spectrum misstated the qualifications of the employee when it submitted the résumé. The résumé, as of 2002, stated that she received her diploma from Eleanor Roosevelt High School. For the AUP period, we are questioning the difference between employee's current position and the position's lowest labor category, which is General Clerk I. We are questioning a total amount of $27,556. (See **Appendix 5**)

d. In four of the 14 files we reviewed, we could not locate the original résumé or application. We subsequently interviewed three of the employees to inquire of their experience and education. Based solely on these interviews, these three people appear to meet the education and experience requirements of their position. The fourth employee only works 20 hours per week and was not present at the time of our interviews. We did not question any costs related to these individuals

Spectrum's Human Resources (HR) policies and procedures do not include procedures for validating the information on an application or résumé, do not include comparing the validated information on the résumé to the contract requirements, and do not include any type of background check, such as credit history or criminal check. Without adequate controls to ensure that personnel working on the contract meet the minimum qualification requirements, PBGC may be paying for inferior services, and the Contracting Officer may disallow costs associated with unqualified personnel.

Recommendations

We recommend that PBGC's Procurement Director require Spectrum International Inc. to:

1. Reimburse PBGC for the questioned costs identified above, totaling $114,225.
2. Develop and implement written policies and procedures for comparing an applicant's experience and education to the experience and education requirements established in the contract, and for documenting this comparison.

3. Develop and implement written policies and procedures for verifying the education and experience indicated by the applicant on his or her résumé or applications. The verification, such as obtaining copies of diplomas, and performing reference checks, should be documented clearly in the personnel files (e.g. name, date and phone numbers of person's contacted, details of items discussed, etc.)
4. For the four individuals in 2(d) above, provide to PBGC evidence supporting that the actual education and experience met requirements in the contract.
5. Develop and implement written policies and procedures for performing limited scope background checks prior to submitting personnel for approval by PBGC.

Contractor's Response

In response to Finding 2, Spectrum has begun to document procedures to be used in checking references during the hiring process and ensuring compliance with contractual education/experience requirements. We are also investigating the possibility of using a third party for limited background checks, although we want to make sure that such checks can be done legally, for reasonable cost, and without exposing the company to additional liability. To date, we have not had a single employee assigned to the PBGC contract fail the Government background check. We will also be working to supplement current employee files with original applications and/or resumes where they do not already exist.

Spectrum is very fortunate to have built a staff in support of PBGC that is qualified conscientious, and which consistently produces high quality work. We believe that PBGC has been pleased with our performance over the years and with qualifications and work product of our staff. Prior to being awarded Contract No. PBGC01-CT-03-0654,Spectrum submitted resumes of all proposed staff. These were accepted by PBGC, and included Computer Operators A and B cited in the draft report:

- Computer Operator A: At the beginning of Contract No.PBGC-01-CT-03-0654 on October 1, 2002, Computer Operator B had worked as a Record Clerk for Spectrum for 3 years and 3 months. Thus, from the start of the contract, he met the contractual requirements of: 1) "Three years of demonstrated self motivation and ability to work independently.." and 2) One year of experience handling the processing, coding, scanning, etc.." By October 2005, the beginning of the contract period in question, he had acquired three additional years of experience in each of these areas. During his employment with Spectrum, this individual fulfilled all responsibilities of his position as a Computer Operator II and performed his duties in a manner satisfactory to both his supervisors and the agency.

- Computer Operator B: At the beginning of Contract No. PBGC01-CT-03-0654 on October 1, 2002, Computer Operator A had worked as a Records Clerk (the precursor to the Computer Operator II position) for Spectrum for one year and five months. He reported to Spectrum that he had attended the University of MD for one year and brought more than a year of clerical experience when hired by Spectrum in 2001, thus meeting the one year college/two year experience requirement of the contract. His resume was approved for Computer Operator II when submitted with Spectrum's proposal for PBGC01-01-CT-03-0654. By October 2005, the beginning of the contract period in question, he had acquired three additional years of experience. During his employment with Spectrum, this individual fulfilled all responsibilities of his position as a Computer Operator II and performed his duties in a manner satisfactory to both his supervisors and the agency.

Our General Clerk I is our lowest ranking employee in terms of pay scale and education/experience requirements, but he is a valuable member of our team nonetheless. At the time he was hired, in December 2006, Spectrum was looking to replace our longtime clerk within a short period of time so as to minimally disrupt project operations. The individual hired had a high school diploma, as required by the contract, and approximately ten months of work experience in various clerical positions. His experience also confirmed his ability to perform the lifting and moving of boxes which are key duties of the clerk position. He was approved by PBGC, stepped into the General Clerk I role, and has been performing his job well ever since.

For the Computer Operator II who did not complete her GED certificate until 2007, Spectrum was under the impression, based on her job application, that she has received a high school diploma. It was for this reason that the diploma was listed on the resume provided to PBGC in 2002. We regret this misstatement, and have since requested that she provide us with a copy of her GED certificate for her employee file. A note has also been placed in her file regarding the education level discrepancy. At the beginning of Contract No. PBGC01-CT-03-0654, this individual had worked as a Record Clerk (the precursor to the Computer Operator II position) for three years and five month on the previous PBGC contract, and thus met the requirement of: 1) "Three years of demonstrated self motivation and ability to work independently..." and 2) One year experience handling the processing, coding, scanning," etc.. By October 2005, the beginning of the contract period in question, she had acquired three additional years of experience in each of these areas. During her employment with Spectrum, this individual fulfilled all responsibilities of her position as a Computer Operator II and performed her duties in a manner satisfactory to both her supervisors and the agency.

In summary, Spectrum is confident that all members of the staff serving PBGC in the Communications Center on Contract No. PBGC01-CT-03-0654, including those noted above, had the experience necessary to perform their assigned duties and proved themselves to be qualified for their positions through previous experience and on-the-job performance.

Independent Accountants' Comments on Contractor's Response

The contractor's response did not specifically address Recommendations 1 and 4 and no additional support was provided to verify the contractor's statements that Computer Operators A and B or the General Clerk were qualified when originally hired. In addition, the contractor's response acknowledges that the Computer Operator II who did not complete her GED until 2007 was not qualified when originally hired. Therefore we reaffirm our positions that PBGC should be reimbursed $114,225 and that the contractor should provide additional documentation to PBGC supporting the education and experience were met. Because we recognize that by virtue of their on-the job time at Spectrum working for PBGC, the employees in question do appear to meet the education/experience requirements during our AUP period (October 1, 2005 to September 30, 2007), we only questioned the difference between the labor rate billed and the lower labor rate, rather than questioning the entire amount billed for each of these employees.

The contractor's response to Recommendations 2 and 3 are responsive and we reaffirm our position that PBGC's Procurement Department should follow-up to ensure the proposed actions have been adequately implemented.

In response to Recommendation 5, we recognize that there are additional steps the contractor may need to go through to fully implement the recommendation. We therefore further recommend that Spectrum provide to PBGC a detailed corrective action plan with timeframes for completion for the necessary steps to implement the policies and procedures, and that PBGC monitor the progress of the corrective action plan and follow-up when necessary.

FINDINGS AND RECOMMENDATIONS

3. Labor Charges Related to Break Periods Not in Compliance with the Contract

We noted instances on four of the 153 timesheets we tested where a person worked more than five hours and did not subtract a half-hour for lunch, as required by the contract. The total dollar amount charged to PBGC and related to these excess charges is insignificant (less than $100); therefore we are not questioning any costs associated with these charges.

These timesheets were all signed by the employees' supervisor. Although Spectrum's employee handbook notes that employees will normally receive a half-hour lunch break, neither the handbook nor the *Project Timesheet Procedures* memo dated July 26, 2004, contain a requirement for employees to back out a half hour on their timesheets for hours worked in excess of five hours per day. In all four of these instances, the employee did not work a full eight-hour day; therefore it appears that employees and supervisors were not aware of this contract requirement.

The PBGC contract Section H.4 PBGC-31-002 *Lunch Period* states:

> *Contractors* [sic] *employees who work on site five hours or more must take at least a 30 minute lunch hour which will not be billable to the contract.*

Although the amounts associated with these four instances are not significant, without awareness of the requirement on the part of employees and supervisors, and adequate controls to prevent these errors from occurring, future non-compliance with this requirement could be significant. This issue was pointed out in the 2002 CCRD report. Although there was no follow-up done by PBGC contracting officials, these problems should have been corrected.

Recommendation

We recommend that PBGC's Procurement Director require Spectrum to modify their written policies and procedures to ensure that a half-hour is backed out for lunch for time worked in excess of five hours, and that the supervisor ensure that timesheets are appropriately notated. Spectrum should make sure employees and supervisors are fully aware of this requirement, especially when working less than a full eight hours.

Contractor's Response

Spectrum will update our employee handbook and timekeeping procedures to indicate that a half hour lunch must be backed out for time worked in excess of five hours per day. Employees and supervisors will be reminded of this contractual requirement.

Independent Accountants' Comments on Contractor's Response

The contractor's proposed actions are responsive to our recommendation. PBGC's Procurement Department should follow-up to ensure these procedures have been implemented.

4. Company Lacks Adequate Financial and Accounting Controls

Spectrum has very little segregation of duties (such as independent checks) because they have a small organization. The headquarters staff consists of the president, plus one other person. The president keeps the books, prepares invoices, manages the human resources function, processes payroll, and performs other functions. In addition, the president's sister works for Spectrum as the project manager on the PBGC contract, potentially eroding any segregation of duties and increasing the risk of collusion.

FINDINGS AND RECOMMENDATIONS

Generally accepted practices require certain duties be segregated so that no one person can initiate, process, record and report transactions and also have access to assets and the accounting system. In addition, generally accepted practices include procedures for independent review or verification of key accounting activities (such as the preparation of significant government invoices).

Because this is a small operation, there are no written accounting policies and procedures, other than detailed timekeeping procedures included in the Employee Handbook and further detailed in a separate memo. Without adequate policies and procedures, inconsistent or improper treatment of accounting and related activities may occur.

Recommendation

We recommend that PBGC's Procurement Director require Spectrum to develop written accounting policies and procedures, to include such areas as payroll, timekeeping (incorporating as necessary the items from the memo on Project Timesheet Procedures), invoicing, human resources, and personnel files. These written procedures should include controls to ensure compliance with contracting requirements. In addition, these procedures should provide for independent checks of key accounting records, such as recalculating invoices and tracing invoices to supporting documentation.

Contractor's Response

Spectrum is a small business, and we try to utilize our corporate resources in the most efficient and effective manner possible. Our corporate staff must handle many responsibilities which would be divided amount different departments in a larger company. This is simply the reality of operating a small business. The president of Spectrum is responsible for handling the accounting, payroll and HR duties, and has been doing so since 1993. As was evident in the sampling review of Spectrum's invoices, there has not been a problem with incorrect calculation of invoices or with invoices conflicting with supporting documentation. For eleven years, Spectrum has been providing PBGC with fair and accurate invoices. Our time records on site at PBGC are always open and available for inspection. Further, during our first two contracts covering 1997 through 2007, which was based on labor hours, multiple copies of the source timesheets were provided to PBGC with each invoice.

As for segregation of duties, the project manager is responsible for managing all PBGC contract activities on-site. The president does not get involved in these at all. The president's duties are at the corporate level (i.e., final review of timesheets for accuracy before processing of payroll and submission to PBGC) do not cross over into on-site project activities, including initiation and first level approvals of employee timesheets. This arrangement has served PBGC well since 1997. It is true that the president of Spectrum and the project manager assigned to PBGC are related. However, we are a company that takes a great deal of pride in our professionalism. There has never been even a suggestion of "collusion," and it certainly has not occurred during our long tenure at PBGC.

Independent Accountants' Comments on Contractor's Response

Although Spectrum is a small business, we reaffirm our position that Spectrum should develop written accounting policies and procedures. It is important to have written accounting policies and procedures no matter the size of the organization. Even though Spectrum has not had any issues with incorrect calculations of invoices, there should still be independent checks of key accounting records.

Pension Benefit Guaranty Corporation

Office of Inspector General

Agreed-Upon Procedures Report

PARAGON TECHNOLOGY GROUP, Inc.

Report for Costs Incurred by Paragon Technology Group, Inc. under
Contract PBGC01-CT-06-0757
For Fiscal Years ended September 30, 2006 and 2007

September 30, 2008

2008-13/CA-0046

PBGC

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

September 30, 2008

MEMORANDUM

To: Susan Taylor, Contracting Officer
Procurement Department

From: Luther Atkins
Assistant Inspector General for Audit

Subject: Agreed-upon Procedures Report for Costs Incurred by Paragon under Contract No. PBGC01-CT-06-0757 for Fiscal Years ended September 30, 2006 and 2007.

This memorandum transmits report number 2008-13/CA-0046 prepared by Williams, Adley & Company, LLP at the request of the Office of Inspector General (OIG). Williams, Adley & Company applied agreed-upon procedures to assist OIG in evaluating whether costs incurred by Paragon in the fiscal years ending September 30, 2006 and 2007 under Contract No. PBGC01-CT-06-0757 were allowable, reasonable, supported and consistent with contractual provisions. The procedures performed and results are discussed in the attached report.

Williams, Adley's report questions $51,786 in costs related to the following issues:

- Paragon's Project Manager had unsupported time billed during FY 2007 and questioned costs are $21,164; and

- Paragon employees did not meet the PBGC experience or education requirements. Also, education and prior employment verifications were not performed for five Paragon employees. Total questioned costs are $30,622.

We recommend the Director, Procurement Department:

- Determine the extent to which reliance will be placed on the building access report and whether to seek a refund of $21,164 from Paragon officials **(PD 123)**;
- Initiate collection efforts to recover $21,164 **(PD 124);**
- Conduct a detailed audit of all hours worked by the PM to determine if additional questioned costs exist **(PD 125);**
- Seek a refund of $30,622 from Paragon officials **(PD 126)**;
- Review invoices that were submitted and question all costs related to the individual identified in the report **(PD 127);**
- Discuss the contract terms with Paragon officials and inform them that the personnel working on the PBGC contract must meet the specific PBGC

requirements. If applicable, Paragon officials should reimburse PBGC for any additional costs for positions that do not meet the minimum experience requirements **(PD 128)**;

- Obtain documentation of employment/educational verification from Paragon officials for individuals identified in the report. Pending receipt of documentation, these individuals should not be assigned to PBGC contracts **(PD 129);**
- Obtain evidence verifying the authenticity of degrees awarded abroad. Pending verification of authenticity, these individuals should not be assigned to work on PBGC contracts **(PD 130)**; and
- Determine the labor costs and total dollars billed to PBGC that should be refunded for individuals whose employment and/or education cannot be verified **(PD 131).**

The report recommends corrective actions including your determination of the allowability of the questioned costs and initiation of necessary collection actions. Both the OIG and Williams Adley are available to discuss the report's findings and provide additional documentation.

Please respond within 30 days of receipt of this report on corrective actions planned and/or taken to resolve the recommendations and questioned costs.

cc: Stephen Barber, Chief Administrative Officer
Patsy Garnett, Chief Information Officer
Marty Boehm, Director, Contracts and Controls Review Department

Williams, Adley & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Inspector General of the
Pension Benefit Guaranty Corporation (PBGC)

We have performed the procedures enumerated on page 4, which were agreed to by your office solely to assist you in evaluating whether costs incurred by Paragon Technology Group, Inc. (Paragon) under contract number PBGC01-CT-06-0757 were allowable, reasonable, supported and consistent with contractual provisions for fiscal years (FYs) ended September 30, 2006 and 2007. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the *American Institute of Certified Public Accountants* and *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described on page 4 either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the incurred costs of Paragon. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of PBGC's Office of Inspector General (OIG), PBGC's Procurement Department and Paragon, and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company, LLP

Washington, DC
July 29, 2008

EXECUTIVE SUMMARY

We have applied certain agreed-upon procedures solely to assist the OIG in evaluating whether costs incurred by Paragon Technology Group, Inc. (Paragon) in providing services on specific projects and ongoing efforts that are targeted to improve the PBGC corporate data layer were allowable, reasonable, substantiated and consistent with contractual provisions for the FYs ended September 30, 2006 and 2007. Our approach to this engagement entailed judgmentally selecting a sample from each FY, 2006 and 2007, and evaluating the accuracy, reasonableness and allowableness of direct labor charges and other direct costs billed to PBGC for FYs 2006 and 2007.

Based on the application of the agreed-upon procedures enumerated on page 4, we have questioned costs relating to the following issues:

- Paragon's Project Manager had unsupported time billed during FY 2007. Questioned costs are $21,526 (see Exhibit 3).

- Paragon employees did not satisfy the PBGC Defined Labor Category Education and or Experience Requirements. Also, education and prior employment verifications were not performed for five Paragon employees. Total questioned costs are $30,622. (see Exhibit 4)

Details, including quantification of the questioned costs, are discussed in the Findings and Recommendations section of our report.

BACKGROUND

The Pension Benefit Guaranty Corporation was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, 29 U.S.C. Sections 1301-1461, ERISA Sections 4001-4402, to insure the pension benefits of participants in certain defined benefit pension plans. PBGC protects the pensions of more than 44 million Americans in approximately 35,000 private single-employer and 1,600 multi-employer defined benefit plans.

PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusteed by PBGC, and recoveries from the companies formerly responsible for the plans.

PBGC's primary responsibility is to collect premiums and assume administration of under-funded plans that either terminate or become insolvent. In the event of plan termination, PBGC assumes control of plan assets, calculates benefit amounts, and pays plan participants a guaranteed benefit. PBGC's work is performed at its Washington, DC headquarters and 11 contract offices located throughout the country, known as field benefit administration (FBA) offices. To carry out its operations, PBGC relies heavily on the services of contractors whose headquarters and field employees account for over half of the workforce involved in processing PBGC's workloads.

PBGC entered into a labor hour contract with Paragon to provide services on specific projects and ongoing efforts that are targeted to improve the PBGC corporate data layer, in six related areas. The contractor is to: design enterprise common services and databases specifically targeted at improving data quality and standardizing corporate data; conduct data quality audits for legacy databases; support data quality best practices by introducing lifecycle processes and artifact templates to the Systems Life Cycle Methodology; establish and develop, extract, transform, and load processes that integrate with data quality software for data transformation and movement; maintain and enhance the Enterprise Data Model; and perform enterprise data management services.

FINDINGS AND RECOMMENDATIONS

1. Paragon Billed PBGC for Unsupported Time Worked by the Project Manager

We reviewed the sign-in/out sheets and the PBGC building access reports for February and March 2007 for the Paragon Project Manager (PM) and noted 36 discrepancies between the sign-in/out sheets and the building access report. The discrepancies resulted in unsupported billing and payment by PBGC to Paragon for [redacted] hours (rounded) or $21,526.

All Paragon personnel working on the PBGC contract are required to sign in and out each day on a roster maintained at the PBGC worksite. In addition, all PBGC and contractor personnel access the PBGC building using an electronic access card. We compared the data from the sign-in/out sheets to the PBGC building access report. Although the building access report cannot provide complete information as to the PM's entry and exit times because of piggybacking - when one person swipes their badge and another person comes in behind them without swiping their own badge - and the report does not provide exit times because employees do not swipe their badge when they leave the building - it provided us with a pattern of the PM's entry times and showed us days that the building was accessed.

Paragon invoiced and received payments for 152 and 121.5 hours for the PM in February and March 2007, respectively. The days and hours reflected on the sign-in/out sheets agree to the days and hours invoiced to PBGC. However, we found that the building access report indicated that the PM was on-site for 64.3 hours and 66.25 hours in February and March 2007, respectively, for a total of 130.55 hours. We noted that the PM signed in and out on the sign-in/out sheets for seven days in February yet the building access report did not record any access made by the PM to the building on those days. In addition, there were five days on which the building access report recorded that the building had being accessed by the PM, but the PM did not sign the sign-in/out sheets for those days. When reviewing the building access report, we assumed an exit time of 5:30PM since this is the time recorded as the exit time on the sign-in/out sheets.

The PM's billing rate was $[redacted] in February 2007 and $[redacted] in March 2007. The calculated difference in hours worked per the sign-in/out sheet and the building access report is [redacted] (rounded) hours for the two month period; [redacted] hours in February and [redacted] hours in March. This resulted in questioned costs of $13,022 and $8,504 for February and March, respectively, for a total of $21,526. Paragon management stated that they did not bill PBGC for 32 hours worked in March 2007; specifically the 1st, 5th, 9th and 28th. However, our review of the access report showed that the PM was not in the building on those days, except for 4 hours on February 28th, therefore we could not verify Paragon's assertion that these 32 hours were worked. We reviewed invoices for February and March 2007 because the PBGC Contracting Officer's Technical Representative on the Paragon contract raised questions about invoices submitted during those two months. Please see Exhibit 3 for the detailed computation of questioned costs associated with this finding.

Paragon officials disputed the reliability of the access card report. However, in this instance it is incumbent upon Paragon to prove the accuracy of its billings by reconciling information contained in the sign-in/out sheets, access card reports, and invoices.

According to the Federal Acquisition Regulations, Part 31.201-2(d), *"a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements."*

Recommendations

We recommend that the PBGC Contracting Officer:

- Disallow questioned costs of $21,526.
- Initiate collection activity to recover the full $21,526 from Paragon.
- Conduct a detailed audit of all hours worked by the PM to determine if additional questioned costs exist.

Paragon Response

Paragon did not concur with the findings and recommendations. In their written response dated September 22, 2008, Paragon disagreed with the finding based on three general premises:

- *Incorrect hourly rate used in calculation of questioned costs for March 2007* – Paragon stated that auditors used a rate of $153.93 rather than the correct contract rate of $[redacted] when calculating questioned costs.

- *Incorrect calculation of hours used to determine questioned costs for March 2007* - Paragon does not agree with the hours used to calculate the questioned costs and feels that the start time used in the calculation was one hour behind the hours reported on the access card reader report.

- *Inability to rely on the building access report* – Paragon cited inaccuracies in the building access report and noted an email from the COTR in March 2007 in which the COTR stated he did not completely trust the data from the card access reader.

IPA's Analysis

Based upon further review, the IPA has recalculated the March 2007 hours for discrepancies related to differences between the sign-in/out sheet and the building access report and notes that the revised number of hours over-billed decreased from [redacted] to [redacted] Also, the IPA acknowledges an error in the contract rate used to calculate the questioned costs and notes that the correct contract rate for March 2007 is $[redacted] not $153.93. As a result, the total revised questioned cost was reduced from $8,505 to $8,142.

Finally, the IPA maintains that they have presented the facts with respect to the sign-in/out sheets and the building access report, and acknowledges that the accuracy of the building access report is disputed by Paragon. The IPA respectfully requests that the PBGC COTR determine the extent to which PBGC will rely on the building access report and whether PBGC will question total costs of $21,164.

2. Paragon Employees Did Not Meet Education and Experience Requirements

We obtained and reviewed the resumes and PBGC contract labor categories for the Paragon employees working on the PBGC contract. During our review, we identified one Paragon employee, the Project Manager (PM), who did not meet the education and experience requirements. As noted in the contract, the requirements for the PM are a Master's Degree or 15 years equivalent industry experience. Based on our review of the PM's resume, the PM had a Bachelor's Degree in Cost Accounting and 13 years experience. We assessed $30,622 in related questioned costs for all hours billed by Paragon for this individual. Please see Exhibit 4 for computation of the questioned costs.

We also found that Paragon did not routinely perform verification of prior employment, employment suitability investigations, or authenticity and academic verification checks of its employees. Our review disclosed that the company did not perform an employment suitability investigation on five of six Paragon employees that worked on the PBGC contract. For example, we found that the Senior Data Modeler possessed a Mechanical Engineering and Physics degree from a foreign university. Also, the PM obtained a Bachelor's of Science in Cost Accounting from a foreign university. There was no documentation of verification of the degree in either employee's personnel file. Also, no evidence of a course criteria or qualification equivalency evaluation was provided.

The Paragon Human Resources Manager confirmed that there was no documentation of the individuals' degrees in the employees' personnel files and thus could not confirm that the degrees were independently verified. We were told that Paragon implemented an employment background investigation process in September 2007.

Paragon officials indicated that all resumes were presented to and approved by the PBGC COTR, however, Section H.9 of the contract between PBGC and Paragon states:

"The Contractor is responsible for providing personnel under this contract who meet or exceed the minimum qualifications. All Contractor personnel assigned to this contract will be subject to review by the Contracting Officer or his representative. Contractor personnel found not to meet qualifications or performance standards shall be removed from performing under this contract. Dollars associated with personnel found not to meet the labor category qualifications will be disallowed."

While the above contract requirement states that all Contractor personnel assigned to this contract will be subject to review by the Contracting Officer or his representative, it does not remove the burden from the Contractor to provide personnel who meet or exceed the minimum qualifications. In fact, Section G.5 of the contract states that:

"The COTR is not authorized to sign any contractual instruments or to direct any action that results in a change in the scope, price, terms or condition of the contract."

Finally, standard good business practice requires an employer to verify the authenticity of employee background information prior to presenting and representing such information as complete, accurate and reliable to the Government. Failure on the part of an employer to perform background investigations on its employees could cause Government officials to make decisions based on incorrect information.

Recommendations

We recommend that the PBGC Contracting Officer:

- Seek a refund of $30,622 from Paragon.
- Review invoices that were submitted and question all costs related to this individual.
- Discuss the contract terms with Paragon and inform them that the personnel working on the PBGC contract must meet the specific PBGC requirements.
- Obtain documentation of employment, experience and employment suitability verification for the five Paragon employees from Paragon. Pending documentation on verifications performed, these individuals should not be assigned to PBGC contracts.
- Obtain evidence verifying the authenticity of degrees awarded abroad.
- Determine the labor costs and total dollars billed to PBGC that should be refunded for those individuals whose employment and/or education can not be verified.

Paragon Response

Paragon does not concur with the finding. Paragon stated in their written response that the resume for the Project Manager (who in fact performs as a "Subject Matter Expert" and not a "Project Manager"), showed 14 years of continuous relevant experience and two additional years of experience at Pizza Hut that were not included on the resume.

With respect to the Senior Data Modeler's degree, Paragon provided a copy of the individual's mechanical engineering and physics degree from a foreign university. Also, Paragon provided a Strayer University transcript for the Project Manager to indicate classes required to obtain a Bachelor's of Science in Cost Accounting from a foreign university.

Further, Paragon acknowledges that while they began performing background checks on employees in September 2007, they were under no contractual obligation by PBGC to do so and any background checks requested must be obtained from PBGC.

IPA's Analysis

While Paragon contends that the Subject Matter Expert had approximately two years of managerial experience at Pizza Hut, the IPA notes that this experience was not reflected on the individual's resume, nor was any type of supporting documentation provided to the IPA to validate this experience. Therefore, the portion of the finding and questioned costs related to failure to meet experience requirements remains.

We reviewed and accept as satisfactory the diplomas and transcript for the Senior Data Modeler and Project Manager, respectively, and no further action is required by Paragon.

Finally, while the contract does not specifically require that Paragon perform background checks on employees working on the contract, the IPA maintains that this is standard best practice and encourages this practice. Paragon began to perform such background checks in September of 2007 and the IPA contends that retroactive application to employees currently assigned to the engagement is not required of Paragon.

Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2008 and 2007 Special-Purpose Financial Statements

LIMITED DISTRIBUTION

This report is intended solely for the information and use of PBGC's Office of Inspector General, Board of Directors, management of PBGC, the U.S. Department of the Treasury, the Office of Management and Budget, the U.S. Government Accountability Office, the United States Congress, and the President in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be and should not be used by anyone other than these specified parties.

November 17, 2008

AUD-2009-3 / FA-08-49-3

Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, N.W., Washington, D.C. 20005-4026

November 17, 2008

To: Patricia Kelly
Chief Financial Officer

From: Nicholas J. Novak *Nicholas J. Novak*
Acting Assistant Inspector General for Audit

Subject: Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2008 and 2007 Special-Purpose Financial Statements – Limited Disclosure Report (2009-3/FA-0049-3)

I am pleased to transmit the attached report prepared by Clifton Gunderson LLP resulting from their audit of the PBGC Fiscal Year 2008 and 2007 Special-Purpose Financial Statements. This report has been prepared for the purpose of complying with the requirement of the U.S. Department of the Treasury's Financial Manual, Volume I, Part 2, Chapter 4700, solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the Financial Report of the U.S. Government. It is not intended to be a complete presentation of PBGC's financial statements.

Due to the nature of this report, we have determined that its distribution should be limited. Recipients of this report should not show or release its contents for purposes other than official review. Request for further distribution of this report should be made to the Office of Inspector General.

We would like to take this opportunity to express our appreciation for the overall cooperation that Clifton Gunderson auditors and we received while performing the audit.

Attachment

cc: Charles Millard
Vince Snowbarger
Stephen Barber
Terrence Deneen
Richard Macy
Judith Starr
Patsy Garnett
Ted Winter
Marty Boehm
Walt Luiza
Wayne McKinnon
David Harvey
Lashon Lissimore

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2008 and 2007 Special Purpose Financial Statements

LIMITED DISTRIBUTION

Audit Report 2009-3 / FA-0049-3

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Audit of the Pension Benefit Guaranty
Corporation's Fiscal Year 2008 and 2007
Special Purpose Financial Statements

LIMITED DISTRIBUTION

Audit Report 2009-3 / FA-0049-3

Section I

Independent Auditor's Report on Special-Purpose Financial Statements

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Special-Purpose Financial Statements

To the Board of Directors, Management,
and Inspector General of the
Pension Benefit Guaranty Corporation
Washington, DC

We have audited the accompanying reclassified balance sheets as of September 30, 2008 and 2007 and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of Pension Benefit Guaranty Corporation (PBGC). These special-purpose financial statements are the responsibility of PBGC's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, as amended, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700 solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of PBGC's financial statements.

In our opinion, the special-purpose financial statements and accompanying notes referred to above present fairly, in all material respects, the financial position of PBGC as of September 30, 2008 and 2007, and its net costs and changes in net position for the years then ended in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

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By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2008, PBGC reported in its general purpose financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $10,678 million and $473 million, respectively. As discussed in Note 8 to the general purpose financial statements, loss exposure for the Single-Employer and Multiemployer Programs that are reasonably possible as a result of unfunded vested benefits are estimated to be $46,732 million and $30 million, respectively. Management based the Single-Employer Program estimate on data for fiscal years ending in calendar 2007 that was obtained from filings and submissions to the government and from corporate annual reports. Subsequent adjustment for economic conditions through September 30, 2008 has not been made and as a result the exposure to loss for the Single-Employer Program as of September 30, 2008 could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor or other factors. PBGC has been able to meet their short-term benefit obligations. However, as discussed in Note 1 to the general purpose financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

The information included in the Other Data is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in PBGC's special-purpose financial statements. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued a combined report dated November 12, 2008, which presents our opinion on PBGC's financial statements; our opinion on management's assertion about the effectiveness of PBGC's internal control over financial reporting; and our consideration of PBGC's compliance with certain provisions of laws, regulations, and other matters. That report is an integral part of an audit of general purpose financial statement reporting performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our audit of the special-purpose financial statements, we also considered PBGC's internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including Other Data, and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affects PBGC's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the special-purpose financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or combination of significant deficiencies, that result in more than a remote likelihood that material misstatements in relation to the special-purpose financial statements being audited will not be prevented or detected.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with the TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements were not objectives of our audit of the special-purpose financial statements and, accordingly, we do not express such opinions.

This report is intended solely for the information and use of PBGC's Office of Inspector General, Board of Directors, management of PBGC, the U.S. Department of the Treasury, the Office of Management and Budget, the U.S. Government Accountability Office, the United States Congress, and the President in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Calverton, Maryland
November 17, 2008