



Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

**Fiscal Year 2016
Financial Statement Audit
Management Letter Report**

February 02, 2017

AUD 2017-6/FA-16-110-5

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Office of Inspector General
Pension Benefit Guaranty Corporation

February 2, 2016

TO: Thomas Reeder
Director

Patricia Kelly
Chief Financial Officer

FROM: Nina Murphy 
Assistant Inspector General for Audits

SUBJECT: Fiscal Year 2016 Financial Statement Audit
Management Letter (AUD-2017-6/FA-16-110-5)

I am pleased to transmit the attached Fiscal Year 2016 Financial Statement Audit Management Letter Report resulting from the Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2016 and 2015 Financial Statements (AUD-2017-2/FA 16-110-1).

During the audit, our independent public accounts, CliftonLarsonAllen LLP, identified certain issues that while significant are not of sufficient magnitude to impact the financial statement opinion. These issues related to PBGC internal controls and operations were not included in the Report on Internal Controls Related to the PBGC's Fiscal Year 2016 and 2015 Financial Statement Audit issued on November 15, 2016 (AUD-2017-3/FA 16-110-2). This management letter summarizes CliftonLarsonAllen's findings and recommendations regarding those less significant matters and includes the status of prior years' management letter recommendations.

In your January 11, 2017 response to a draft of the Management Letter Report, you indicated that PBGC management agreed with the new recommendations and provided planned corrective actions with estimated completion dates. Responses to individual recommendations have been incorporated into the Management Response sections of Attachment III and Attachment IV.

During FY2016, CliftonLarsonAllen, as part of their work, follow up on open recommendations included in the previous years' management letters. This year the OIG and our independent

public accountant will continue working with management to discuss and evaluate the status of prior years' recommendations.

We would like to take this opportunity to express our appreciation for the overall cooperation provided during the performance of the audit.

cc: Thomas Reeder	Patricia Kelly
Alice Maroni	Cathleen Kronopolus
Ann Orr	Karen Morris
Michael Rae	Robert Scherer
Judith Starr	Theodore Winter
Marty Boehm	



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To the Inspector General and
Management of the
Pension Benefit Guaranty Corporation

We have audited the financial statements of the Pension Benefit Guaranty Corporation (PBGC or the Corporation) as of and for the year ended September 30, 2016 and PBGC's internal control over financial reporting as of September 30, 2016, and have issued our reports¹ thereon dated November 15, 2016. In planning and performing our audits of the financial statements and internal control over financial reporting of PBGC, in accordance with auditing standards generally accepted in the United States of America; issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB); we considered PBGC's internal controls as a basis for designing audit procedures that are appropriate for the purpose of expressing our opinions on the financial statements and internal control over financial reporting. Our opinion included in the Annual Report, was that PBGC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016. Our opinion on internal control is based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control*, as amended (OMB Circular A-123). We reported an instance of noncompliance with selected provisions of laws and regulations for the year ended September 30, 2016. PBGC reported an Antideficiency violation in connection with U.S.C., Title 31, Section 1342, voluntary services of an independent subcontractor. We also reported a potential Antideficiency violation in connection with PBGC not recording the full contractual obligation under its current multiyear lease arrangements.

We previously provided a written communication dated November 15, 2016, which lists the significant deficiencies identified during our audits of the financial statements of PBGC as of and for the year ended September 30, 2016, and PBGC's internal control over financial reporting as of September 30, 2016. This letter does not affect that communication.

During our audits we became aware of deficiencies in internal control, other than a material weakness or significant deficiency, and other matters that are opportunities to strengthen PBGC's internal control and improve the efficiency of PBGC's operations. Our comments and suggestions regarding these matters are summarized below. Additionally, the status of prior year audit recommendations is attached.

¹ Audit of the Pension Benefit Guaranty Corporation Fiscal Year 2016 and 2015 Financial Statements – AUD-2017-2/FA-16-110-1
<http://oig.pbgc.gov/summaries/FA-16-110-1.html>

Report on Internal Controls Related to the Pension Benefit Guaranty Corporations Fiscal Year 2016 and 2015 Financial Statements
AUD 2017-3/ FA-16-110-2 <http://oig.pbgc.gov/summaries/FA-16-110-2.html>

Management's written response to the matters identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the PBGC management and Inspector General of PBGC and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Calverton, Maryland
November 15, 2016

I. ACRONYMS

AVR	Actuarial Valuation Report
ASD	Actuarial Services Division
BD	Budget Department
CCRD	Corporate Controls and Reviews Department
CLA	CliftonLarsonAllen LLP
COR	Contracting Officer's Representative
CPF	Corporate Premium Filing
CSD	Customer Support Division
DOL	Department of Labor
FBA	Field Benefit Administration
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOD	Financial Operations Department
FY	Fiscal Year
GAO	Government Accountability Office
ME	Multi-Employer
NIST	National Institute of Standards and Technology
NFR	Notice of Findings and Recommendations
NRAD	Office of Negotiations and Restructuring Actuarial Division
OBA	Office of Benefits Administration
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
PDR	Participant Data Review
PFI	Participant File Inventory
PIF	Payee Information Form
PIP	Pension Information Profile
PPD	Policy and Procedures Division
PVA	Post Valuation Administration
RCF	Recommendation Completion Form
RP	Reasonably Possible
SE	Single-Employer
SPBR	Small Plan Bulk Reserve
TBD	To Be Determined
TP	Technical Procedure
UVB	Unfunded Vested Benefits

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II. EXECUTIVE SUMMARY

As part of the fiscal year (FY) 2016 financial statements audit, we tested internal controls over financial reporting and compliance with laws, regulations, contracts and grant agreements as of September 30, 2016, based on the criteria contained in the FMFIA and OMB Circular A-123. We did not examine all internal controls relevant to operating objectives as broadly defined by FMFIA and OMB Circular A-123, such as those controls relevant to preparing statistical reports and ensuring efficient operations. The work was completed in accordance with attestation standards established by the American Institute of Certified Public Accountants. In addition, we conducted our audits of the financial statements in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). The criteria used to benchmark the testing and to reach the conclusions contained in this report also included PBGC standards, procedures, and policies, along with government agency guidance published by the National Institute of Standards and Technology (NIST), and through Presidential Decision Directives. Refer to Section VII for a listing of Federal criteria documented in the report.

The following is the breakdown by department of the results of our testing:

Type	OBA	FOD	IPD	NRAD	CCRD	BD	Total
Open recommendations as of September 30, 2015	7	3	1	6	3	0	20
Recommendations moved from Report on Internal Controls	0	1	0	0	0	0	1
Recommendations closed during FY 2016 audit cycle	<u>(4)</u>	<u>(3)</u>	<u>(1)</u>	<u>(6)</u>	<u>(2)</u>	<u>(0)</u>	<u>(16)</u>
Total prior years' open recommendations as of September 30, 2016	3	1	0	0	1	0	5
Add: new FY 2016 recommendations	<u>2</u>	<u>2</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>3</u>	<u>9</u>
Total open recommendations as of September 30, 2016	<u>5</u>	<u>3</u>	<u>0</u>	<u>2</u>	<u>1</u>	<u>3</u>	<u>14</u>

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III. FISCAL YEAR 2016 FINDINGS AND RECOMMENDATIONS

FISCAL YEAR 2016 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>Title: OBA-Benefit Determination-Plan Close</p> <p>To test the operating effectiveness of the OBA's Plan Closing process, we randomly selected 9 from a total population of 48 terminated plans closed during fiscal year 2016 (October 1, 2015 through June 30, 2016) and identified the following:</p> <ul style="list-style-type: none"> • The plan completion checklist for all 9 selected for testing lacked evidence of a supervisory review. • Terminated plan close documents for 4 of the 9 plans tested were not scanned into the Image Processing System (IPS) in a timely manner. The documents were subsequently imaged upon our inquiry. <p>Criteria:</p> <p>OBA Operations Manual 22.2- Closed Plan Review, states "once the plan has been accepted for post-valuation administration, assemble the Plan Completion Package and submit to the CSD Employee Benefit Law Specialist or the FBA Office for imaging. Include the following: plan completion memo, plan completion checklist, created PFI report, quality review checksheet and pertinent e-</p>	<p>We recommend the following to address the identified condition:</p> <p>OIG Control Number: OBA-01 (NFR 16-01)</p> <p>Include a written policy for timely submission of required the Plan Close Completion documentation for submission into IPS.</p>	<p>OIG Control Number: OBA-01 (NFR 16-01)</p> <p>PBGC Response: Management agrees with the finding and recommendation presented. We will take the following actions to address the finding:</p> <ol style="list-style-type: none"> (1) Work with the Policy & Procedures Division (PPD) to update the current plan closing procedures to include a timeframe for getting plan closing review documents into IPS once the plan review is approved and accepted; (2) Update the Plan Closing Review checklist to provide for a signature of the reviewer; and (3) Implement a quality review to ensure plan closing review checklist has been signed by the reviewer and documents are subsequently scanned into IPS. <p>Targeted Completion Date: December 31, 2017</p>

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FISCAL YEAR 2016 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>mails. Within 30 days of receipt, image the entire Plan Completion Package to the plan file.”</p> <p>According to the OBA Operations Manual Technical Procedure 16, Plan and Participant File Maintenance, OBA maintains two types of case-related files in the IPS repository: plan files and individual participant files. The maintenance of these official administrative records is critical to ensure adequate documentation is available to support, substantiate and validate benefit payment calculations.</p> <p>OBA Operations Manual 21.9- Assemble and Submit Completion Memo states, “prepare the Plan Completion Checklist to summarize reports utilized and actions taken in the plan closing process. The checklist is required to be submitted with the Plan Completion Memo to assist in supervisory or peer review of a plan closing. CSD requires that a reviewer sign off on the checklist.”</p>		

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FISCAL YEAR 2016 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>Title: OBA-Benefit Payments</p> <p><u>Benefit Funding Reconciliation</u> To test the operating effectiveness of the OBA's benefit funding reconciliation process, we haphazardly selected 4 monthly reconciliations during fiscal year 2016 (October 1, 2015 through June 30, 2016) and identified the following:</p> <ul style="list-style-type: none"> The benefit funding reconciliation for March 2016 and April 2016 were not completed prior to the 22nd of the month. <p><u>Post Balancer Review</u> To test the operating effectiveness of the Post Balancer Review process, we haphazardly selected 4 months of reviews during fiscal year 2016 (October 1, 2015 through June 30, 2016) and identified the following:</p> <ul style="list-style-type: none"> We were unable to determine if the Balancer Administrator performed a review of the February 2016 and March 2016 reconciliations within one week of the date received. Post balancer reconciliation issues were not resolved by the Balancing Support Team within four weeks of the date the issues were received. 	<p>We recommend the following to address the identified condition:</p> <p>OIG Control Number: OBA-02 (NFR 16-03)</p> <p>Perform on a monthly basis, a documented independent verification of the benefit payment controls to confirm that management's objectives are accomplished.</p>	<p>OIG Control Number: OBA-02 (NFR 16-03)</p> <p>PBGC Response: Management agrees with the finding. Current OBA procedures designed to detect and prevent incorrect payments were drafted in an environment that relied heavily on the transmission of paper to correct out of balance payment situations. OBA will assess its procedures and controls, and make appropriate changes that reflect the current technologies and system capabilities.</p> <p>Targeted Completion Date: December 31, 2017</p>

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<p><u>Participant First Pay Process</u> To test the operating effectiveness of the Participant First Pay process, we randomly selected 45 participants who were placed in pay status during the fiscal year (October 1, 2015 through June 30, 2016) and identified the following:</p> <ul style="list-style-type: none"> One plan participant received a benefit payment, even though the Payee Information Form (PIF) was not completed within the required 90 days. <p>Criteria:</p> <p><u>Benefit Funding Reconciliations</u> OBA's <i>Funding Reconciliation</i> procedure, states "The funding reconciliation memorandum, funding reconciliation summary and funding reconciliation details spreadsheet should be compiled and sent to the BPB Branch Chief and RSD Manager by the 22nd of the month."</p> <p><u>Post Balancer Review</u> FY 2016 Benefit Payment Cycle Memo, Control 8, states, "The management and program analyst performs or monitors the performance of a post balance review/reconciliation of approved payments in the Spectrum system vs. payment ledgers provided by the paying agent. Exceptions are identified and addressed in a timely manner in accordance with the published</p>		

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<p>procedures, to detect and correct any incorrect payments.</p> <p>OBA <i>Post Balancer</i> procedure states, "The balancer team completes reviews and corrections within four weeks of receipt of reports from Balancer Administrator and returns the report to the Data Integrity Team (DIT) Supervisor. The DIT Supervisor certifies the BPB Balance Error Correction process is complete and forwards the Balancer Report and Balance Control Sheets to the Balancer Administrator ten business days after receipt from the Balancer team. The procedure also states, "The Balancer Administrator review and certify the completeness of the Balancer Reports and the Balancer Control sheets within one week after they are received from the DIT.</p> <p><u>Benefit Payments</u> OBA Operations Manual Technical Procedure 20, <i>Benefit Payments</i>, states "the first payment must be paid within 90 days of receipt of the complete application or the date the application is made complete."</p>		

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<p>Title: Budget</p> <p>During our testing of PBGC's reprogramming of funds, we observed the following:</p> <ul style="list-style-type: none"> The Budget Department (BD) has not drafted a comprehensive set of directives over the funds control regulations to be approved by OMB, as required per OMB A-11. The BD does not have a methodology to ensure that the population of realignment of funds requests made by the various departments is complete. There are no documented uniform procedures for authorizing and processing the realignment of funds requests. While BD was able to articulate their processes, the explanations were sometimes inconsistent. We had no formal documentation against which we could confirm our understanding of their procedures nor could we verify the validity of BD's explanations for questions that arose during our testing. <p>Criteria:</p> <p>31 U.S. Code Sec. 1514 – Administrative division of apportionments</p> <p>a. The official having administrative control of an</p>	<p>We recommend the following to address the identified condition:</p> <p>OIG Control Number: BD-04 (NFR 16-05)</p> <p>Draft and submit for OMB approval funds control regulations that incorporate the required elements as described in OMB A-11, Appendix H.</p> <p>OIG Control Number: BD-05 (NFR 16-05)</p> <p>Develop and maintain a log to record and monitor all realignment of funds requests entered into the Consolidated Financial System (CFS) by other departments. The log should be reviewed and reconciled to the realignment of funds requests entered into CFS.</p>	<p>OIG Control Number: BD-04 (NFR 16-05)</p> <p>PBGC Response: Management agrees that PBGC does not have a Funds Control Directive approved by OMB. PBGC will draft a Funds Control Directive referencing other applicable directives and procedures that support funds control and will seek OMB approval as required per OMB A-11. BD will take the lead with support from FOD and OGC.</p> <p>Targeted Completion Date: June 30, 2018</p> <p>OIG Control Number: BD-05 (NFR 16-05)</p> <p>PBGC Response: Management accepts that BD within its procedures has not documented the methodology to ensure that the population of realignment of funds is addressed. However, PBGC has a compensating controls process in place which involves departmental budget Liaison Officers (BLOs). This internal control process provides management with reasonable assurances that the transactions are posted in the CFS. BLO's are responsible for monitoring and tracking budget/financial actions which</p>

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FISCAL YEAR 2016 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>appropriation available to the legislative branch, the judicial branch, the United States International Trade Commission, or the District of Columbia government, and, subject to the approval of the President, the head of each executive agency (except the Commission) shall prescribe by regulation a system of administrative control not inconsistent with accounting procedures prescribed under law. The system shall be designed to –</p> <ol style="list-style-type: none"> 1. Restrict obligations or expenditures from each appropriation to the amount of apportionments or reapportionments of the appropriation; and 2. Enable the official or head of the executive agency to fix responsibility for an obligation or expenditure exceeding an Apportionment or reapportionment. <p>b. To have a simplified system for administratively dividing appropriations, the head of each executive agency (except the Commission) shall work toward the objective of</p>	<p>OIG Control Number: BD-06 (NFR 16-05)</p> <p>Develop a procedures manual detailing the process for processing and authorizing realignment of funds requests. The procedures manual should be reviewed and approved by the Budget Director.</p>	<p>supports the budget execution and financial reporting. As such, BD does not believe a log is required to be in compliance nor would it be a cost effective solution given the fore mentioned existing compensating controls. PBGC will initiate a review of its process for realignment of funds through its internal control committee and determine if the current compensating controls that are in place need to be augmented or strengthened. BD will take the lead.</p> <p>Targeted Completion Date: June 30, 2018</p> <p>OIG Control Number: BD-06 (NFR 16-05)</p> <p>PBGC Response: Management agrees with the condition found. BD will supplement its current directives and proposed administrative funds control directive with internal procedures to ensure definitions and processes are better documented.</p> <p>Targeted Completion Date: June 30, 2018</p>

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FISCAL YEAR 2016 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>financing each operating unit, at the highest practical level, from not more than one administrative division for each appropriation affecting the unit.</p> <p>OMB A-11, Preparation, Submission and Execution of the Budget; Section 150.3 Administrative Control of Funds, states internal controls are the organization, policies and procedures that ensure:</p> <ul style="list-style-type: none"> • Programs achieve their intended results. • Resources used are consistent with agency's mission • Programs and resources are protected from waste, fraud, and mismanagement • Laws and regulations are followed • Reliable and timely information is obtained, maintained, reported, and used for decision making. <p>OMB A-11, Preparation, Submission and Execution of the Budget, Section 150.7 Administrative Control of Funds, state agencies should review their fund control regulations periodically to determine whether improvements should be made. At a minimum, review the system whenever:</p> <ul style="list-style-type: none"> • OMB issues revised guidance on budget execution. • Your agency is reorganized. 		

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<ul style="list-style-type: none"> • Staff from your agency has violated the Antideficiency Act. <p>OMB A-11, Appendix H – Checklist for Funds Control Regulations states: An agency must include the following items in the funds control regulations submitted to OMB for approval (selected items listed below):</p> <p>Responsibility and functions of individuals. Your agency regulations should describe those individuals within the agency charged with funds control responsibilities by title or position. At a minimum, they should: List the positions and describe the funds control responsibilities of each. Explain each position's responsibilities with regard to investigating, reporting, and following up on Antideficiency Act violations, as well as violations of agency limitations that are not violations of the Antideficiency Act.</p> <p>Apportionment procedures. Normally, you describe agency procedures for requesting apportionment of funds in other directives or manuals. However, you should include the following as part of the funds control regulations:</p> <ul style="list-style-type: none"> • Briefly describe your agency's procedures for requesting the apportionment of funds. List 		

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<p>position(s) and organizations responsible for making the request.</p> <ul style="list-style-type: none">• Cite the basic internal agency directives covering the apportionment of funds. At your option, you may include general guidance covering apportionment action in connection with the following:<ul style="list-style-type: none">○ Supplementals○ Reprogramming○ Transfer between accounts• Discuss agency administrative control of funds policies that apply specifically to revolving funds, management funds, and trust funds, including those that are not apportioned. If any of these funds are not subject to the basic provisions of these regulations, describe the procedures used to control them in a separate section.		

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<p>Title: Single-Employer Reasonably Possible</p> <p>We randomly selected a sample of 148 plans (41 4010 plans, 11 PIP plans and 96 Premium plans) to perform testing the single-employer reasonably possibles for Large plans. During our testing, we identified a calculation error in one sample for determining the net unfunded vested liability for 4010 the plans.</p> <p>Criteria:</p> <p>RP List Procedures-FY 2016, Section 3: <u>Procedures for 4010 or PIP as Data Sources</u>, Step 5, Bullet 2 states: Review the attachments of the 4010 filing. There should be a current AVR or supplemental attachment with the plan's Active Vested Funding Target (FT) and Active Total Funding Target. At the top of the screen select the item from the drop down menu that corresponds to the source document of the active FT and Active Vested FT. Enter the information and click compute and the program will calculate the vested liability. Bullet 4 states: A second person will need to review the calculation.</p>	<p>We recommend the following to address the identified condition:</p> <p>OIG Control Number: NRAD-06 (NFR 16-17)</p> <p>NRAD update the total funding target for sample 37 (Thyssen Krupp AG)</p> <p>OIG Control Number: NRAD-07 (NFR 16-17)</p> <p>NRAD should strengthen its quality control review process to verify that all key data is properly entered and the liability is properly calculated.</p>	<p>OIG Control Number: NRAD-06 and 07 (NFR 16-17)</p> <p>PBGC Response: Management agrees with the finding. The total funding target was updated for ThyssenKrupp before completion of the September 30, 2016 RP List. For future years, an additional check will be completed to sort the spreadsheet results of the UVB calculations on the vested percent column and check that there are no vested percentages in excess of 100%.</p> <p>Targeted Completion Date: June 30, 2017</p>

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FISCAL YEAR 2016 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>Title: Change Management role-based Training</p> <p>In FY 2016, the Financial Operations Department (FOD) did not follow PBGC's policies and procedures to ensure all FOD staff and contractors who required role-based training, completed the training. Specifically, we noted that 5 FOD management was not present for the Premium Practitioner System (PPS) Financial Management System (FMS) 3.5 upgrade Role-Based Training.</p> <p>Criteria:</p> <p><i>NIST Special Publication 800-53 Rev 4 Security and Privacy Controls for Federal Information Systems and Organizations, AT-03 Role-Based Training:</i></p> <p>Control: The organization provides role-based security training to personnel with assigned security roles and responsibilities:</p> <ol style="list-style-type: none"> Before authorizing access to the information system or performing assigned duties When required by information system changes; and [Assignment: <i>organization-defined frequency</i>] thereafter. 	<p>We recommend the following to address the identified condition:</p> <p>OIG Control Number: FOD-401 (NFR 16-09)</p> <p>FOD management should acknowledge that they are aware of the roles and responsibilities in the Premium Practitioner System (PPS) release process, which could be done by having management sign the training slides.</p>	<p>OIG Control Number: FOD-401 (NFR 16-09)</p> <p>PBGC Response: Management agrees with the finding.</p> <p>Targeted Completion: February 28, 2017</p>

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<p>Supplemental Guidance: Organizations determine the appropriate content of security training based on the assigned roles and responsibilities of individuals and the specific security requirements of organizations and the information systems to which personnel have authorized access. In addition, organizations provide enterprise architects, information system developers, software developers, acquisition/procurement officials, information system managers, system/network administrators, personnel conducting configuration management and auditing activities, personnel performing independent verification and validation activities, security control assessors, and other personnel having access to system-level software, adequate security-related technical training specifically tailored for their assigned duties. Comprehensive role-based training addresses management, operational, and technical roles and responsibilities covering physical, personnel, and technical safeguards and countermeasures. Such training can include for example, policies, procedures, tools, and artifacts for the organizational security roles defined. Organizations also provide the training necessary for individuals to carry out their responsibilities related to operations and supply chain security within the context of organizational information security</p>		

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<p>programs. Role- based security training also applies to contractors providing services to federal agencies.</p> <p>Information Technology Infrastructure Services General Support System (ITISGSS) System Security Plan (SSP) – Change and Configuration Management Services</p> <p>According to the ITISGSS SSP, PBGC implements Role-Based Training by the following:</p> <p>Department managers identify personnel with significant information system security roles and responsibilities and documents those roles and responsibilities. (i) Content for the role-based security training is determined by the SAISO and ISSO with specific departmental requirements and the information systems to which personnel have authorized access. (ii) All staff shall receive training when there is a significant change in the PBGC's information system environment or procedures, or when staff enters a new position that requires additional role-specific training. (iii) Annual security training is provided through classroom lectures that reinforce information security as well as highlight current information security risks and techniques for mitigation. Role-based training is currently done by classroom</p>		

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<p>presentation. Roles are identified by level of training required with different number of required training hours. Network Access is revoked and employees' managers are notified by email if employees do not receive required training.</p> <p>PBGC Configuration Management Standard Operating Procedure (SOP) Role-Based Training is required for each individual with a Configuration Management responsibility.</p>		
<p>Title: Secure Payment System</p> <p>PBGC did not appropriately restrict incompatible duties in the Secure Payment System (SPS). SPS is a Department of the Treasury application that allows government agencies to create payment schedules in a secure fashion; with strictly enforced separation of duties. However, the PBGC Certifying Officer (CO) is also the Data Entry Operator (DEO).</p> <p>SPS allows staff at PBGC to securely certify and submit schedules to the Department of the Treasury over the Internet.</p> <p>There are two different types of users that</p>	<p>We recommend the following to address the identified condition:</p> <p>OIG Control Number: FOD-402 (NFR 16-12)</p> <p>PBGC should immediately implement controls to separate the duties of the Certifying Officer and Data Entry Officer.</p>	<p>OIG Control Number: FOD-402 (NFR 16-12)</p> <p>PBGC Response: Management agrees with the finding and recommendation presented. We will take the following actions to address the finding:</p> <ol style="list-style-type: none"> 1. Assign separate certifying officers to generate the payment schedule for the DEO to upload into SPS, and another certifying officer to certify the payment schedule in the SPS. 2. Update GAB Payment Processing

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FISCAL YEAR 2016 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>are required and responsible for submitting payment schedules through SPS:</p> <ul style="list-style-type: none"> • The DEO creates or imports a schedule and submits the schedule for certification. • The CO examines the schedule for content and accuracy. Upon verification, the CO will then certify the schedule, which will result in the schedule being submitted to the Department of the Treasury for disbursement. <p>However, at PBGC the CO generates the payment schedule for the DEO to upload into SPS. The CO then certifies his/her own payment schedule in the SPS. The DEO does not generate the payment schedule as required by the Department of the Treasury.</p> <p>Criteria:</p> <p><i>Treasury Financial Manual Chapter 2000: Requirements for Scheduling Payments Disbursed by the Bureau of the Fiscal Service</i></p> <p>Certifying Officers (COs) are individuals to whom the authority to approve disbursement of agency funds has been delegated by a properly authorized official. The</p>		<p>Procedures to address segregation of duties when processing vendor payments.</p> <p>3. COD/GAB will provide training on the updated GAB Payment Processing procedures to address the required additional certifying officer role (segregation of duties) for payment processing and certifying payments in SPS.</p> <p>Targeted Completion: January 31, 2017</p>

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FISCAL YEAR 2016 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>designating official must have a valid FMS 2958 on file with Fiscal Service providing authority to designate COs for the agency. Officials, other than Heads of Agencies who are delegated designation authority for COs may not designate themselves as COs. COs authorized to certify payments to Treasury may not be designated as SPS Data Entry Operator (DEO).</p> <p>An SPS DEO is an individual to whom authority to create and modify SPS payment requests to Treasury's RFCs has been delegated by a properly authorized designating official with a valid FMS 2958 on file with Fiscal Service. A DEO designated with SPS authority is issued a PKI credential. SPS has application specific requirements for obtaining PKI credentials.</p> <p>Then, the CO with an active designation on file at Fiscal Service examines the schedule and, upon verification, certifies the schedule, which results in the schedule being submitted to Fiscal Service.</p> <p>U.S. GAO Standards for Internal Control in the Federal Government Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the</p>		

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FISCAL YEAR 2016 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks.</p> <p>Office of Management and Budget (OMB) Circular No. A-123, <i>Management's Responsibility for Enterprise Risk Management and Internal Control</i></p> <p>Agency management must determine the appropriate level of documentation needed to support this assessment. The Green Book provides documentation requirements that are a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system. The Green Book includes minimum documentation requirements as follows:</p> <ul style="list-style-type: none">• If management's assessment determines that a principle is not relevant, management supports that determination with documentation that includes the rationale of how, in the absence of		

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FISCAL YEAR 2016 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>that principle, the associated component may be designed, implemented, and operated effectively.</p> <ul style="list-style-type: none">• Management develops and maintains documentation of its internal control system.• Management documents in policies the internal control responsibilities of the organization.• Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues.• Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis.• Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis.		

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IV. PRIOR YEARS' RECOMMENDATIONS

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2016 TESTING	TARGETED COMPLETION DATE
<p>Title: Premiums</p> <p>The Financial Operations Department (FOD) has a lack of controls surrounding the completeness and accuracy of the premium balance. Specifically, FOD does not perform a comprehensive reconciliation of key data inputs between the Form 5500 and the Comprehensive Premium Filing (CPF) that includes both plan participant counts and market value of the plan assets. These inputs are essential to calculate the fixed rate premium for the Single-Employer and Multiemployer plans as well as the variable rate premium for Single-Employer plan at June 30. FOD stated that an electronic comparison of the Form 5500 and the CPF by plan year is limited to matching a defined benefit plan sponsor's Employer Identification Number (EIN). This comparison is used by PBGC to identify potential non-filers that owe PBGC premiums for a specific plan year.</p>	<p>OIG Control Number: FS-14-15</p> <p>We reviewed the RCF and did not note evidence that FOD completely addressed the finding. FOD performed an analysis comparing the key inputs within the Form 5500 and CPF for fiscal years 2013 and 2014, namely for variances in unmatched asset values and unmatched participant counts. During our prior year testing, FOD has stated that any variances in key inputs between the Form 5500 and the CPF were due to definitional differences in the data requested. However, we noted during our review of their analysis that for the analysis over unmatched asset values, FOD determined that there were 34 plans that required follow-up to explain existing discrepancies, representing \$3.1 million in additional potential Variance Rate Premium (VRP) income. Additionally, FOD's analysis over the unmatched participant counts uncovered 24 plans that required follow-up to explain existing discrepancies, representing an additional \$7 million in additional potential VRP income. While approximately 30 of these plans were able to explain the variances without revisions, the remaining plans admitted errors, which required revised premium filings to be submitted to PBGC. FOD has stated that they plan to institute a tracking tool to</p>	<p>OIG Control Number: FS-14-15</p> <p>PBGC Response: For the first item concerning the tracking tool, the OIG is scheduling a separate meeting in January 2017 to discuss this item. At that time, FOD will explain (and document) that the tracking software has already been implemented in PPS using the Service Request function.</p> <p>For the second item concerning the methodology of what amount was deemed significant, this issue was fully addressed in the meeting between FOD and OIG/CLA on December 19, 2016. The handout from that meeting will be submitted as part of the RCF.</p> <p>Targeted Completion Date: February 28, 2017</p>

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PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2016 TESTING	TARGETED COMPLETION DATE
	<p>monitor said variances in the future; however, this tool has not yet been implemented.</p> <p>Secondly, FOD indicated to us that during their detailed analysis, they focused only on plans that would result in a "significant" amount of additional premium income. However, it is unclear what methodology FOD came up with to determine what amount was deemed significant.</p> <p>While FOD has made significant progress in addressing this finding with their analysis, issues remain regarding how FOD will track these key data issues unrelated to definitional differences, as well as their methodology for determining which variances are considered significant enough for follow-up with plan administrators. Therefore, this recommendation will remain open.</p>	
<p>Title: A-123 Internal Control Assessment/FMFA</p> <p>OIG Control Number: CCRD-14</p> <p>1. PBGC should update their A-123 Internal Control Assessment Procedures to include:</p> <p>a. Thorough explanation of the criteria</p>	<p>OIG Control Number: CCRD-14</p> <p>We received the RCF and did not note evidence that CCRD completely addressed the original finding. We noted in our FY 2015 FMFA testing that for one testing of effectiveness performed by PBGC, the testing procedures did not include a step for determining the completeness of the</p>	<p>OIG Control Number: CCRD-14</p> <p>Status: An RCF was submitted to the OIG for review and possible closure of this recommendation.</p>

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PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2016 TESTING	TARGETED COMPLETION DATE
<p>and selection process used to determine controls selected for testing on the three-year rotational basis. The rotation plan should allow for management to revise their selections based on changing environment and/or processes and</p> <p>b. A testing procedure to verify the completeness of the populations' files is performed prior to sampling. If not applicable, CCRD should document its rational/approach for not verifying the completeness of the population.</p>	<p>population. Additionally, we noted that the division being tested did not keep documentation regarding the completeness of their population. Due to the deficiencies in ensuring the completeness of the populations being tested, this recommendation will remain open.</p>	
<p>Title: Large and Medium Multiemployer Plans</p> <p>OIG Control Number: FS-14-41</p> <p>The Actuarial Services Division/OBA should undertake a consolidation and codification of its technical procedures and actuarial practices into a single documentation source for single employer plan valuations.</p>	<p>OIG Control Number: FS-14-41</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p>	<p>OIG Control Number: FS-14-41</p> <p>Status: As of December 8, 2014, OBA provided a spreadsheet stating the status of open OIG recommendations and the corrective action plans to address them. The completion target date for this recommendation is December 31, 2018, and OBA expects to submit an RCF requesting closure by this date.</p> <p>Targeted Completion Date: December 31, 2018</p>

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PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2016 TESTING	TARGETED COMPLETION DATE
<p>Title: Large and Medium Multiemployer Plans</p> <p>OIG Control Number: FS-14-42</p> <p>The Actuarial Services Division/OBA should undertake a consolidation and codification of its technical procedures and actuarial practices into a single documentation source for multiemployer plan valuations.</p>	<p>OIG Control Number: FS-14-42</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p>	<p>OIG Control Number: FS-14-42</p> <p>Status: As of December 8, 2014, OBA provided a spreadsheet stating the status of open OIG recommendations and the corrective action plans to address them. The completion target date for this recommendation is December 31, 2018, and OBA expects to submit an RCF requesting closure by this date.</p> <p>Targeted Completion Date: December 31, 2018</p>
<p>Title: Participant Data Review</p> <p>OIG Control Number: BAPD-116</p> <p>BAPD management should refine their monitoring procedures within the Participant Data Review (PDR) process to ensure that each reviewer verifies that the staff selects the appropriate sample size in accordance with their prescribed procedures.</p>	<p>OIG Control Number: BAPD-116</p> <p>We received the RCF and noted although BAPD implemented a more consistent approach to selecting samples under TP 60, BAPD has not fully addressed the monitoring issue. Specifically, BAPD has not created procedures to ensure that the reviewers are verifying correct sample sizes in accordance with BAPD policy. OIG did not agree with the closure of BAPD-116.</p>	<p>OIG Control Number: BAPD-116</p> <p>PBGC Response: An RCF was submitted to the OIG for review and possible closure of this recommendation.</p>

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V. RECOMMENDATIONS CLOSED IN FISCAL YEAR 2016 AUDIT CYCLE

<u>OIG Control Number</u>	<u>Date Closed</u>	<u>Original Report Number</u>
BAPD-109	3/30/2016	AUD-2013-08/FA-12-88-7
BAPD-119	3/30/2016	AUD-2014-07/FA-13-93-6
BAPD-133	10/18/2016	AUD-2016-6/FA-15-108-6
CCRD-17	11/7/2016	AUD-2015-06/FA-14-101-5
CCRD-18	10/25/2016	AUD-2015-06/FA-14-101-5
FOD-334	3/30/2016	2005-02/23182-2
FOD-400	9/20/2016	AUD-2016-6/FA-15-108-6
FS-14-35	10/25/2016	AUD-2015-3/FA-14-101-3
FS-14-43	9/20/2016	AUD-2015-3/FA-14-101-3
FS-14-46	4/5/2016	AUD-2015-3/FA-14-101-3
FS-14-47	4/5/2016	AUD-2015-3/FA-14-101-3
FS-14-48	4/5/2016	AUD-2015-3/FA-14-101-3
IPD-4 (Formerly IOD-260)	3/30/2016	2005-10/23812-6
NRAD-03	12/8/2016	AUD-2015-06/FA-14-101-5
NRAD-04	12/8/2016	AUD-2016-6/FA-15-108-6
NRAD-05	12/8/2016	AUD-2016-6/FA-15-108-6

VI. OPEN RECOMMENDATIONS AS OF NOVEMBER 15, 2016

<u>OIG Control Number</u>	<u>Original Report Number</u>
<u>Prior Year:</u>	
BAPD-116	AUD-2013-08/FA-12-88-7
CCRD-14	AUD-2015-06/FA-14-101-5
FS-14-41	AUD-2015-3/FA-14-101-3
FS-14-42	AUD-2015-3/FA-14-101-3
FS 14-15	AUD-2015-3/FA-14-101-3
<u>Current Year:</u>	
OBA-01	
OBA-02	
BD-04	
BD-05	
BD-06	
NRAD-06	
NRAD-07	
FOD-401	
FOD-402	

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VII. CRITERIA

OMB Circular A-50, *Audit Follow-up*
OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources*
OMB Circular A-11, *Preparation, Submission and Execution of the Budget*
E-Government Act of 2002 (Public Law 107-347)
NIST Special Publication 800-53 Rev. 4, *Security and Privacy Controls for Federal Information Systems and Organizations, AT-03 Role-Based Training*
OBA Operations Manual TP 16
OBA Operations Manual TP 20
OBA Operations Manual TP 21.9
OBA Operations Manual TP 22.2
OBA Funding Reconciliation Procedure
OBA Post Balancer Procedure
FY 2016 Benefit Payments Cycle Memo
RP List Procedures
Users Procedures Guide
Government Accountability Office (GAO) Internal Control Standards: Accurate and Timely Recording of Transactions and Events
U.S. GAO Standards for Internal Control in the Federal Government
Single-Employer Reasonably Possible Calculation Tool for Small Plans User Guide Version 1.1
Treasury Financial Manual Chapter 2000: Requirements for Scheduling Payments Disbursed by the Bureau of the Fiscal Service
PBGC Configuration Management Standard Operating Procedure (SOP)



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

Office of the Director

To: Robert A. Westbrook
Inspector General

JAN 11 2017

From: W. Thomas Reeder 
Director

Subject: Response to Draft FY 2016 Management Letter Report

PBGC management appreciates the opportunity to comment on the draft management letter report issued as part of the FY 2016 financial statement audit. We also appreciate the work of your office in delivering the report timely and professionally.

For your convenience, we are separately sending a detailed response via an electronic attachment based on your report's format. In that, please note that while there is one recommendation for which further discussions will be needed, we are in agreement with all of the other recommendations. The detailed response addresses each new recommendation, including our planned corrective actions and estimated completion dates. It also includes updates regarding prior year recommendations referenced in Section IV of the draft report.

Please contact Marty Boehm on ext. 3901, should you have any questions.

cc:

Patricia Kelly, Chief Financial Officer
Cathy Kronopolus, Chief of Benefits Administration
Alice Maroni, Chief Management Officer
Karen Morris, Chief of Negotiations and Restructuring
Michael Rae, Deputy Chief Policy Officer
Robert Scherer, Chief Information Officer
Judith Starr, General Counsel
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