



Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

**Report on Internal Controls Related to the
Pension Benefit Guaranty Corporation's Fiscal
Year 2015 and 2014 Financial Statements Audit**

November 13, 2015

AUD 2016-3/FA-15-108-3

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Office of Inspector General
Pension Benefit Guaranty Corporation

November 13, 2015

TO: Thomas Reeder
Director

Patricia Kelly
Chief Financial Officer

FROM: Rashmi Bartlett 
Assistant Inspector General for Audit

SUBJECT: Report on Internal Controls Related to the
Pension Benefit Guaranty Corporation's
Fiscal Years 2015 and 2014 Financial Statement Audit
(AUD-2016-3/FA-15-108-3)

I am pleased to transmit the report prepared by CliftonLarsonAllen LLP resulting from their audit of the PBGC Fiscal Year 2015 and 2014 Financial Statements. The purpose of this report is to provide more detailed discussions of the specifics underlying the material weaknesses and significant deficiency reported in the internal control section of the combined Independent Auditor's Report dated November 13, 2015 (AUD-2016-2 / FA-15-108-2).

The attached management response to a draft of this report indicates management's agreement with each recommendation and their commitment to addressing the recommendations contained in the report and to remediating the associated material weaknesses. However, the recommendations are still unresolved as PBGC management has not established completion dates for the recommendations. The Inspector General Act requires that audit recommendations be resolved within a maximum of 6 months from report issuance. Within 30 days please provide a corrective action plan and an estimated completion to the Office of Inspector General.

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

Attachment

November 13, 2015

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cc: Cathleen Kronopolus
Alice Maroni
Ann Orr
Michael Rae
Robert Scherer
Sanford Rich
Judith Starr
Ted Winter
Marty Boehm

Report on Internal Controls Related to the
Pension Benefit Guaranty Corporation's
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Audit Report AUD-2016-3 / FA-15-108-3

Acronyms

| | |
|-------|---|
| ASD | Actuarial Services Division |
| BAPD | Benefits Administration and Payment Department |
| DoPT | Date of Plan Termination |
| ERISA | Employee Retirement Income Security Act of 1974 |
| FOD | Financial Operations Department |
| FY | Fiscal Year |
| IPVFB | Integrated Present Value of Future Benefit |
| IT | Information Technology |
| NIST | National Institute of Science and Technology |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PBGC | Pension Benefit Guaranty Corporation |
| PPS | Premium Practitioner System |
| PVFB | Present Value of future Benefit |
| RMF | Risk Management Framework |
| SP | Special Publication |

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Independent Auditor's Report

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Supplemental Report on Internal Control

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

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, 2015, and have examined management's assertion included in PBGC's Annual Report about the effectiveness of the internal control over financial reporting (including safeguarding assets) and PBGC's compliance with certain provisions of laws, regulations, contracts and grant agreements, and have issued our audit report thereon dated November 13, 2015 (see Office of Inspector General (OIG) report AUD 2016-2/FA-15-108-2).

We conducted our audit and examination in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

In our Independent Auditors' Report on PBGC's fiscal year (FY) 2015 financial statements, we identified certain deficiencies in internal control that we consider a material weakness and other deficiencies that we collectively consider to be significant deficiencies. The purpose of this report is to provide more detailed information on these deficiencies.

Summary

PBGC protects the pensions of more than 40 million workers and retirees in nearly 24 thousand private defined benefit pension plans. Under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), PBGC insures, subject to statutory limits, pension benefits of participants in covered private defined benefit pension plans in the United States. The establishment of a robust internal control framework and the implementation of the appropriate internal control activities are essential to PBGC operations. Internal controls include the processes and procedures that PBGC management has placed into operation to ensure that the programs achieve their intended results; resources used are consistent with agency mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained, maintained, reported, and used for decision making, as stated in OMB Circular A-123, *Management's Responsibility for Internal Control*. In order to reduce financial reporting and operational risks to PBGC as a whole, ongoing active involvement from PBGC's senior leadership in the monitoring and response to such risks is warranted.

PBGC has made significant progress in addressing conditions reported in previous years. Such progress has reduced the deficiencies associated with the previously reported material weaknesses in (1) PBGC's entity-wide security program and (2) access controls and configuration management, which resulted in a change in classification to significant deficiencies. However, PBGC has

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continued to revise other planned corrective actions needed to correct long-standing control failures. Further, PBGC has revised some of the corrective actions' due dates by one year or more. These revisions may be necessary but impede PBGC's progress to effectively remediate the remaining control deficiencies.

In our Independent Auditors' Report, we identified the following material weakness:

Controls over the Present Value of Future Benefit (PVFB) Liability

We also identified the following significant deficiencies:

1. Entity-wide Security Program Planning and Management
2. Access Controls and Configuration Management
3. Controls over Premium Income

The following provides an overview of each of the deficiencies identified in our report.

MATERIAL WEAKNESS

Controls over the Present Value of Future Benefit Liability

During FY 2015, the Benefits Administration and Payment Department (BAPD) made progress in their remediation efforts to correct long-standing deficiencies related to controls over the calculation of the PVFB liability. The PVFB liability represents the estimated liability for future benefits that PBGC is, or will be, obligated to pay participants of covered Single-Employer and certain Multiemployer pension plans. Some of these efforts included an organizational restructuring and refinements to operating divisions within the department and personnel changes to key management positions. Also, certain enhancements to business processes and procedures were made to address prior year control deficiencies. However, the results of our FY 2015 procedures revealed controls over the calculation of the PVFB liability require management's continued focus.

Calculation of the Present Value of Future Benefits Liability

We continued to identify errors in the calculation of participant benefits and the related PVFB liability similar to those identified in prior audits. During our testing of the PVFB liability reported at June 30 and September 30, we identified:

- Errors caused by system limitations or programming flaws.
- Documentation procedures were not followed for plan terminations and documentation procedures used for system maintenance were inadequate.
- Data entry errors and inaccurate use of plan data provisions.

Similar to the prior year test results, we continued to calculate an average error rate that exceeds more than 20% of samples tested. Using a statistically-based sampling technique, we identified approximately 19% of the samples tested in which the calculated liability for a plan participant was either overstated or understated. Our projection of our sample results suggests that, most likely, \$73 billion liability is understated by approximately \$629 million at September 30, 2015. Our projection also indicates the balance may be understated by as much as approximately \$1.6 billion

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and overstated by as much as approximately \$318 million. Although, the Corporation continues to refine business processes related to the calculation of Individual Participant Valuation, these long-standing control deficiencies impede the Corporation's ability to accurately calculate valuations for some participant's benefits and properly estimate and report related future liabilities.

Documentation to Support Benefit Calculations

Similar to prior years, PBGC was not able to provide the documentation needed to fully support liability calculations for some samples tested at June 30 and September 30. PBGC continues to update its documentation requirements to address the risk that individual participant's benefits are not supported. However, the absence of documentation required to support participant's calculated benefits could lead to improper benefit payment and participant liability calculations by PBGC. Specifically, we could not determine whether the benefits or the associated liability was calculated properly for those selected samples at June 30 and September 30. Since these deficiencies remain, the susceptibility of inaccurate valuation of plan liabilities reported in the Corporation's financial statements exists.

Recommendations:

- Investigate the cause underlying the IPVFB valuation of the terminated recoupment and include the correction of that flaw to the IPVFB modernization project. **(OIG Control # FS-15-01)**
- Promptly correct errors in benefit calculations and data entries when identified. **(OIG Control # FS-14-01. OIG did not accept PBGC corrective action submission. Awaiting revised corrective action date.)**
- Perform an analysis to identify risks associated with the lack of documentation supporting all participants' benefit calculations and assess the impact to the calculations and related liability. **(OIG Control # FS-14-02) (PBGC scheduled completion date: September 30, 2016)**
- Upon completion of a risk analysis, PBGC should develop a policy to finalize management's position on the financial impact of the lack of documentation and implement any actions that will be taken to address this systemic issue. The policy should also document any residual risk that it may elect to accept. **(OIG Control # FS-14-03) (PBGC scheduled completion date: September 30, 2016)**
- Develop and document a risk assessment of the BAPD's entire operations. The risk assessment should include the identification of all the root causes of the issues identified by the auditors and Actuarial Services Division (ASD). PBGC should monitor the implemented corrective actions. The materiality thresholds used should be reasonable. **(OIG Control # FS-14-04) (PBGC scheduled completion date: September 30, 2016)**
- Expand modernization efforts to Spectrum and the IPVFB systems to:
 1. Value the actual popup benefit for Joint and Survivor Popup annuity forms.
 2. Value non-level and surviving spouse benefits without the need for supplemental tables.**(OIG Control # FS-14-06) (PBGC scheduled completion date: December 31, 2018)**

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- Continue to promptly correct the errors in its calculations identified by the auditors during the FY 2013 testing of the Individual Participant Valuation. **(OIG Control # FS-13-01) (PBGC revised completion date: December 31, 2018)**
- Continue to develop and implement improvements to the BAPD Systems (Spectrum and the IPVFB) to:
 1. Record and value separate benefit components payable under different annuity forms.
 2. Record and value anticipated future benefit amount changes.
 3. Record and value temporary joint and survivorship benefits. **(OIG Control # FS-13-02) (PBGC scheduled completion date: December 31, 2018)**
- Develop and implement a comprehensive documentation retrieval system that clearly identifies the location of the participants' census data and benefit calculation elements in a systematic manner. **(OIG Control # FS-12-02) (PBGC revised completion date: August 31, 2016*)**
- Ensure that adequate documentation was maintained, which supports, substantiates and validates benefit payment calculations by implementing proper monitoring and enforcement measures in compliance with approved policies and procedures. **(OIG Control # FS-11-11) (PBGC revised completion date: August 31, 2016*)**

Valuation of Plan Assets and Benefits

As previously reported in the prior years, PBGC has not completed the revaluing of plan assets for certain terminated plans, which may result in adjustments to the plan participant's benefits. The valuations impact the fair market value of certain assets of trustee plans at the date of plan determination. Until these plan asset valuations are completed, significant risks to the reliability of participants' benefit determinations and PBGC reported PVFB liability remain.

Recommendations:

- Refine and assess the effectiveness of the quality assurance program aimed to ensure that plan asset valuations meet the regulatory standard of determining fair market value based on the method that most accurately reflects fair market value. **(OIG Control # FS-11-07) (OIG did not accept PBGC corrective action submission. Awaiting revised corrective action date)**
- Continue to identify those plans that might potentially have a pervasive misstatement to the financial statements if the date of plan termination (DoPT) asset values were originally misstated. Management should then re-evaluate the DoPT asset values for those identified plans and consider the impact of any known differences on the financial statements. **(OIG Control # FS-11-09) (PBGC revised completion date: June 30, 2016*)**

SIGNIFICANT DEFICIENCIES

1. Entity-wide Security Program Planning and Management

PBGC made significant progress in addressing the Corporation's entity-wide security program planning and management control deficiencies. In FY 2015, new information technology (IT) security leadership provided the direction and guidance needed to implement a coherent

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framework of security controls to protect PBGC's information from unauthorized access, modification and disclosure. PBGC improved communication on the status and direction of IT security and introduced new policies, processes, procedures, and technology to effectively manage information security risks. We concurred in the closure of ten recommendations submitted for review. As a result, corrective actions taken by the Corporation have reduced the risk level of the entity-wide security program from a material weakness to a significant deficiency.

These efforts, however, did not fully address the challenges faced by the Corporation to effectively implement an entity-wide information security program to manage its security process. OMB and the National Institute of Science and Technology (NIST) guidance requires agencies to have an effective entity-wide security program.¹

These requirements provide a framework for assessing and managing risk, including developing and implementing security policies and procedures, conducting security awareness training, monitoring the adequacy of the entity's computer-related controls through security tests and evaluations, and implementing remedial actions as appropriate. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of the Corporation's sensitive or critical resources.

PBGC has not fully implemented components of its entity-wide information security risk management program. Some components not fully implemented include the following:

- Implementing common controls and remediating common control weaknesses.
- Making all common controls compliant with NIST SP, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* requirements.
- Making all common controls available to system owners for appropriate inclusion in their system security plans.
- Completing the transition to the PBGC Risk Management Framework (RMF) supports PBGC organizational, mission and information system objectives by addressing each of the six RMF phases: categorize, select, implement, assess, authorize, and monitor.
- Fully implementing a continuous monitoring program.
- Completing the transition to NIST 800-53, Revision 4 security controls.

PBGC is cognizant of these challenges and in July 2015, implemented NIST's RMF to establish an integrated enterprise-wide decision structure for cybersecurity risk management that includes and integrates PBGC mission and business areas. Implementation of the Framework supports PBGC organizational, mission and information system objectives, which will transition to near real-time risk management. This Framework will also address common controls weaknesses and full implementation of continuous monitoring controls. The Corporation has established a timeline for transition to the RMF requirements by September 2016.

¹ OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources*, and National Institute of Science and Technology (NIST) Special Publications (SP), including SP 800-53, Revision 4 *Security and Privacy Controls for Federal Information Systems and Organizations*, SP 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems*, and SP 800-39, *Managing Information Security Risk*.

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Recommendations:

- Complete the PBGC RMF transition, fully implement the entity-wide information security risk management program and provide periodic updates to stakeholders. **(OIG Control Number FS-15-02)**
- Complete the migration to NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* and provide periodic updates to stakeholders. **(OIG Control Number FS-15-03)**
- Complete the implementation of NIST SP 800-53, Revision 4 controls for common controls, remediation of common controls weaknesses, and make available to system owners in Cyber Security Assessment and Management for appropriate inclusion in their system security plans. **(OIG Control Number FS-15-04)**

2. Access Controls and Configuration Management

PBGC also made progress in addressing access controls and configuration management deficiencies noted in prior years. In FY 2015, PBGC's new IT security leadership implemented various tools and processes to establish a more coherent environment for implementing access control and configuration management security controls at the root cause level. We concurred with closing seven recommendations. As a result, corrective actions taken by the Corporation have reduced the risk level of access controls and configuration management from a material weakness to a significant deficiency.

However, this progress did not fully resolve security weaknesses. Access controls and configuration management weaknesses remain a systemic problem throughout PBGC. Weaknesses in the PBGC IT environment continue to contribute to deficiencies in system configuration, segregation of duties and role-based access controls based on least privilege. PBGC has pushed out the dates for many planned corrective actions by one year or more. We continue to make the recommendations noted below to address the underlying weaknesses in PBGC's information system security controls.

PBGC has not fully addressed access controls and configuration management weaknesses. Some controls not fully implemented include the following:

- Developing and implementing a coherent strategy and approach for providing information services and information system management controls, correcting IT infrastructure deficiencies, developing a framework for implementing common security controls, mitigating the systemic issues related to access control, and strengthening system configurations and user account management for all of PBGC's information systems.
- Developing and implementing an account management monitoring program that ensures that accounts are constantly maintained in accordance with PBGC account management standards and that reduces the dependency on recertification.
- Implementing infrastructure controls and access controls to restrict developers' access to the production environment.

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- Developing the process and procedures for utilizing the security configuration checklists in the establishment of baseline configurations for each information system technology product.
- Developing and implementing processes and procedures for determining and documenting defined security configuration checklists for database applications.
- Implementation of requirements for the disposition of dormant accounts for all PBGC systems.
- Developing and implementing a checklist to assist contracting officers in their efforts to acquire IT assets and services that comply with both PBGC and federal policy requirements.

Access controls and configuration management controls are an integral part of an effective information security management program. Access controls limit or detect inappropriate access to systems, protecting the data from unauthorized modification, loss or disclosure. Agencies should have formal policies and procedures, and related control activities should be properly implemented and monitored. Configuration management ensures changes to systems are tested and approved and systems are configured securely in accordance with policy.

An information system is comprised of many components² that can be interconnected in a multitude of arrangements to meet a variety of business, mission and information security needs. How these information system components are networked, configured and managed is critical in providing adequate information security and supporting an organization's risk management process.

Recommendations:

- Develop and implement a coherent strategy for correcting IT infrastructure deficiencies and a framework for implementing common security controls, and mitigating the systemic issues related to access control by strengthening system configurations and user account management for all of PBGC's information systems. **(OIG Control # FS-09-12) (PBGC revised completion date: June 30, 2016*)**
- Develop and implement procedures and processes for the consistent implementation of common configuration management controls to minimize security weaknesses in general support systems. **(OIG Control # FS-07-07) (PBGC revised completion date: June 30, 2016*)**
- Implement controls to remedy vulnerabilities identified in key databases and applications, such as weaknesses in configuration, roles, privileges, auditing, file permissions, and operating system access. **(OIG Control # FS-07-14) (PBGC revised completion date: June 30, 2016*)**
- Appropriately restrict developers' access to production environment to only temporary emergency access. **(OIG Control # FS-07-10) (PBGC revised completion date: June 30, 2016*)**

² Information system components include, for example, mainframes, workstations, servers (e.g., database, electronic mail, authentication, Web, proxy, file, domain name), network components (e.g., firewalls, routers, gateways, voice and data switches, wireless access points, network appliances, sensors), operating systems, middleware, and applications.

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- Apply controls to remove/disable inactive and dormant accounts after a specified period for the affected systems in accordance with the PBGC Information Security Policy (formerly IAH). **(OIG Control # FS-07-12) (PBGC revised completion date: June 30, 2016*)**
- Continue to remove unnecessary user and generic accounts. **(OIG Control # FS-07-08) (PBGC revised completion date: June 30, 2016*)**

3. Controls over Premium Income

Under Title IV of ERISA, PBGC generates income from the covered Single-Employer and Multiemployer defined benefit pension plans that are required to pay premiums. Both types of plans pay a flat rate premium; the Single-Employer plans may also pay a variable rate premium, based on a dollar threshold per participant of underfunding.

The Financial Operations Department (FOD) is principally responsible for financial reporting, including the recording of financial transactions, and for the maintenance of the financial accounting systems. The Premium Practitioner System (PPS) is the financial system used to record the Corporation's premium income transactions throughout the fiscal year. During FY 2015, we found that certain control activities over the recording of premium income were not operating effectively. These control failures led to two misstatements of premium income.

PBGC management identified a recording error to the FY 2014 premium income in early FY 2015. This error occurred because staff did not implement new procedures relating to the newly-implemented PPS. This resulted in a manual Single-Employer variable premium accrual in addition to the PPS automated calculation of the year-end accrual at September 30, 2014. Further, management did not perform an effective quality control supervisory review of the accrual in FY 2014 to identify the error. Also, management did not perform a comprehensive review over the premium data to determine the accuracy and completeness of premium income.

The controls deficiencies that contributed to the second premium error included the following:

- FOD did not follow its own internal controls identified within system requirements and system design documentation. During the implementation of a scheduled software release, FOD implemented a particular code change that resulted in a \$250 million accounting error to premium income. PBGC's internal controls were circumvented on a number of levels. Specifically,
 - Adequate documentation and risk analyses did not occur prior to the change being implemented.
 - The code change was exclusively tested by the developer and did not undergo independent third party testing.
 - Necessary user acceptance testing scripts were not developed because this code change was not expressly included in design documentation.

PBGC management's software changes were intended to improve report processing within PPS. However, this particular code change was described as a "last minute" addition, which also contributed to the lack of documentation, testing and impact analysis. PBGC has specific IT change and release internal controls; FOD should follow the Corporation's

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internal controls. Had FOD followed appropriate change management procedures, this \$250 million error may have been prevented.

- The design of the control for the reconciliation of the PPS subsidiary ledger to the general ledger is still flawed. We found that the automated PPS to general ledger reconciliation did not disclose the actual variance between the two. The programming logic developed for the reconciliation report purposely excluded conversion activities. As a result of PPS coding activities implemented in July 2015, certain transactions were not recording correctly, which resulted in a misstatement of premium income at September 30. Had management performed a comprehensive reconciliation of its subsidiary details to the general ledger, the error could have been detected earlier.
- Management did not provide all the premium activities recorded in PPS for examination, as requested. These activities related to system conversion efforts of the legacy Premium Accounting System to PPS that occurred in FY 2014, and a decision to treat premium activities differently that were related to premium flings for fiscal years 2011 and earlier. In addition, management did not disclose that PPS was designed not to automatically post certain prior-year premium income to the general ledger. Upon further inquiry, management stated reasons for this different treatment. However, these transactions are part of PBGC's premium revenue under management's monitoring and were not disclosed to the auditors.

Additionally, the following control deficiencies identified in last year's audit remain:

- PBGC management continued to perform a limited comparison to match a plan sponsor's Employer Identification Number/Plan Number between the Form 5500 and Comprehensive Premium Filing. This analysis identifies variances between key data inputs that may alert PBGC of improper premium filings. Both forms include plan participant counts and market value of the plan assets data, and are loaded into the PPS. Accurate information on participant counts and market values is essential for properly calculating the fixed and variable rate premiums.
- The PPS reporting functionality continues to have limitations. A functionality limitation we found was that PPS did not generate a detailed report that displayed the calculated fixed rate and variable rate premium for each pension plan for the period of October 1, 2014 through September 30, 2015.

Recommendations:

- FOD should develop controls to ensure changes in PPS are properly tested prior to being placed into production, including controls to confirm: (1) PBGC's change control processes are followed, and (2) system requirements and design changes are fully documented. **(OIG Control # FS-15-05)**
- FOD should perform a comprehensive analysis of key data inputs (e.g., participant count, market value, etc.) between Form 5500 and the Comprehensive Premium Filing to identify significant variances. In addition, management should develop a risk analysis that focuses on evaluating the underlying causes of the significant variances identified from the comprehensive

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analysis and assess the potential impact to the completeness assertion for premiums. **(OIG Control # FS-14-15) (PBGC scheduled completion date: December 31, 2015)**

- FOD should perform a period to period (e.g., year to year, quarter to quarter, etc.) fluctuation/variance analysis of plan premium summary level data to identify anomalies, unusual trends and other critical factors evaluated by management. The underlying cause of the variances should be investigated and documented based on thresholds established by management. **(OIG Control # FS-14-16) (OIG did not accept PBGC corrective action submission. Awaiting revised corrective action date.)**
- FOD management should update their financial statement footnotes disclosures to adequately disclose pertinent events or circumstances that provide useful information and focus user's attention on matters that are most relevant to understanding premium revenue. **(OIG Control # FS-14-19) (OIG did not accept PBGC corrective action submission. Awaiting revised corrective action date.)**
- FOD should develop a procedure to reconcile the PPS subsidiary ledger to general ledger reconciliation. The reconciliation must reflect the cumulative PPS subsidiary balance compared to the general ledger at a point in time (e.g., December 31, March 31, June 30, etc.). Any differences should be aggregated by type (e.g., timing differences, manual adjustments) and explained. The support for these differences must be maintained for supervisory and/or external review. In addition, each reconciliation must show evidence of preparer and supervisory review. **(OIG Control # FS-14-20) (Based on audit results, OIG reopened this recommendation. (Awaiting revised corrective action date.)**
- PBGC should update current procedures and the Premium cycle memo to reflect current control activities and/or practices related to the premium reconciliation process. **(OIG Control # FS-14-21) (Based on audit results, OIG reopened this recommendation. Awaiting revised corrective action date.)**
- FOD should update current Premium and Practitioner System reporting functionality to provide a detailed summary fixed and variable rate premium report by plan for each reporting period. This report should be used as the principal support for the PPS balance reported on the PPS subsidiary ledger to general ledger reconciliation **(OIG Control # FS-14-22) (OIG did not accept PBGC corrective action submission. Awaiting revised corrective action date.)**

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



CliftonLarsonAllen LLP

Calverton, Maryland
November 13, 2015

Status of Internal Control Report Recommendations

| Prior Year Internal Control Report Recommendations Closed During FY 2015 | Date Closed | Original Report Number |
|--|-------------|------------------------|
| FS-07-11 | 11/03/2015 | 2008-2/FA-0034-2 |
| FS-08-01 | 09/07/2015 | AUD-2009-2/FA-08-49-2 |
| FS-08-02 | 10/14/2015 | AUD-2009-2/FA-08-49-2 |
| FS-08-03-M-A | 10/14/2015 | AUD-2009-2/FA-08-49-2 |
| FS-09-01 | 10/08/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-02 | 09/17/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-03 | 10/28/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-04 | 10/28/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-05 | 10/14/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-06 | 10/14/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-07 | 10/27/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-14 | 08/19/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-15 | 09/01/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-16 | 09/01/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-17 | 10/14/2015 | AUD-2010-2/FA-09-64-2 |
| FS-09-20 | 10/28/2015 | AUD-2010-2/FA-09-64-2 |
| FS-11-03 | 09/30/2015 | AUD-2012-2/FA-11-82-2 |
| FS-11-06 | 03/24/2015 | AUD-2012-2/FA-11-82-2 |
| FS-11-12 | 03/24/2015 | AUD-2012-2/FA-11-82-2 |
| FS-12-05 | 10/19/2015 | AUD-2013-2/FA-12-88-2 |
| FS-13-07 | 11/03/2015 | AUD-2014-3/FA-13-93-2 |
| FS-14-05 | 10/19/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-07 | 10/08/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-08 | 10/14/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-11 | 10/14/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-13 | 10/14/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-14 | 09/29/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-17 | 10/15/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-18 | 09/22/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-20 | 10/15/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-21 | 10/15/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-23 | 09/17/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-24 | 09/17/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-25 | 09/17/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-26 | 10/08/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-27 | 10/08/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-28 | 10/08/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-29 | 10/08/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-30 | 10/08/2015 | AUD-2015-3/FA-14-101-3 |

| Prior Year Internal Control Report Recommendations Closed During FY 2015 (CONT.) | Date Closed | Original Report Number |
|---|--------------------|-------------------------------|
| FS-14-31 | 10/08/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-32 | 09/30/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-33 | 09/30/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-34 | 09/17/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-36 | 09/17/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-37 | 09/17/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-38 | 09/17/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-39 | 10/15/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-40 | 10/19/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-44 | 10/15/2015 | AUD-2015-3/FA-14-101-3 |
| FS-14-45 | 10/15/2015 | AUD-2015-3/FA-14-101-3 |

Open Recommendations as of September 30, 2015:

| Recommendation | Report |
|-----------------------|------------------------|
| Prior Years' | |
| FS-07-07* | 2008-2/FA-0034-2 |
| FS-07-08* | 2008-2/FA-0034-2 |
| FS-07-10* | 2008-2/FA-0034-2 |
| FS-07-12* | 2008-2/FA-0034-2 |
| FS-07-14* | 2008-2/FA-0034-2 |
| FS-07-17*** | 2008-2/FA-0034-2 |
| FS-09-12* | AUD-2010-2/FA-09-64-2 |
| FS-11-07** | AUD-2012-2/FA-11-82-2 |
| FS-11-09* | AUD-2012-2/FA-11-82-2 |
| FS-11-11* | AUD-2012-2/FA-11-82-2 |
| FS-12-02* | AUD-2013-2/FA-12-88-2 |
| FS-13-01* | AUD-2014-3/FA-13-93-2 |
| FS-13-02 | AUD-2014-3/FA-13-93-2 |
| FS-14-01** | AUD-2015-3/FA-14-101-3 |
| FS-14-02 | AUD-2015-3/FA-14-101-3 |
| FS-14-03 | AUD-2015-3/FA-14-101-3 |
| FS-14-04 | AUD-2015-3/FA-14-101-3 |
| FS-14-06 | AUD-2015-3/FA-14-101-3 |
| FS-14-09*** | AUD-2015-3/FA-14-101-3 |
| FS-14-10*** | AUD-2015-3/FA-14-101-3 |
| FS-14-12*** | AUD-2015-3/FA-14-101-3 |
| FS-14-15 | AUD-2015-3/FA-14-101-3 |
| FS-14-16** | AUD-2015-3/FA-14-101-3 |
| FS-14-19** | AUD-2015-3/FA-14-101-3 |
| FS-14-22** | AUD-2015-3/FA-14-101-3 |
| FS-14-35 | AUD-2015-3/FA-14-101-3 |

| Recommendation (CONT.) | Report |
|------------------------|------------------------|
| FS-14-41**** | AUD-2015-3/FA-14-101-3 |
| FS-14-42**** | AUD-2015-3/FA-14-101-3 |
| FS-14-43***** | AUD-2015-3/FA-14-101-3 |
| FS-14-46**** | AUD-2015-3/FA-14-101-3 |
| FS-14-47**** | AUD-2015-3/FA-14-101-3 |
| FS-14-48**** | AUD-2015-3/FA-14-101-3 |

FY Ended September 30, 2015

* The dates have been revised one or more times by management.

** PBGC has not established a revised completion date.

*** This recommendation remains open and has been moved to the FISMA report.

**** These recommendations remain open and have been moved to the Management Letter.

***** This recommendation remains open and has been moved to the Management Letter. **OIG did not accept PBGC corrective action submission. Awaiting revised corrective action date.**

**Report on Internal Controls Related to the
Pension Benefit Guaranty Corporation's
Fiscal Year 2015 and 2014 Financial Statements**

AUD 2016-3/ FA-15-108-3

MANAGEMENT COMMENTS:




Office of the Director

MEMORANDUM

November 13, 2015

To: Robert Westbrooks
Inspector General

From: W. Thomas Reeder 
Director

Subject: Response to Draft FY 2015 Internal Control Report

Thank you for the opportunity to comment on the draft FY 2015 internal control report. We are in agreement with the reports' recommendations. The attachment to this memorandum provides details regarding our planned corrective actions.

We are pleased that your report recognizes the progress made in benefits administration in FY 2015, even as we are working to address this *material weakness* by improving the controls over our process to calculate our Present Value of Future Benefits Liability. We also appreciate the recognition of the significant progress that PBGC made in addressing IT security and access controls, reducing these conditions from *material weaknesses* to *significant deficiencies*. We have plans firmly in place to address these matters.

We are committed to keeping your office informed of our progress and any approved updates to estimated completion dates. As we work to address open recommendations, we will continue to provide your office with evidence of the corrective actions taken.

We look forward to working with your office throughout FY 2016 to make PBGC an even better agency in service to millions of Americans.

Attachment

cc:

Patricia Kelly
Cathleen Kronopolus
Alice Maroni
Ann Orr
Michael Rae
Sanford Rich
Robert Scherer
Judith Starr
Martin O. Boehm
Theodore J. Winter

Attachment

**Management Responses to New Recommendations Included in the
Draft FY 2015 Internal Control Report**

1. **OIG Recommendation No. FS-15-01:** Investigate the cause underlying the IPVFB valuation of the terminated recoupment and include the correction of that flaw to the IPVFB modernization project.

PBGC Response: PBGC agrees with the recommendation. Management will investigate why IPVFB valued the terminated recoupment for the sample in question. Based on the results of our investigation, we will make adjustments to our processes as appropriate.

2. **OIG Recommendation No. FS-15-02:** Complete the PBGC RMF transition, fully implement the entity-wide information security risk management program and provide periodic updates to stakeholders.

PBGC Response: PBGC agrees with the recommendation. PBGC is in the process of migrating to NIST Special Publication 800-37, Risk Management Framework, and will be providing periodic updates to relevant stakeholders throughout the next 14 months. Our expected timeframe for completion is 12/31/2016, and we are in the process of establishing a Plans of Action & Milestones in our Cyber Security Assessment and Management tool (CSAM).

3. **OIG Recommendation No. FS-15-03:** Complete the migration to NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organization* and provide updates to stakeholders.

PBGC Response: PBGC agrees with the recommendation. PBGC is in the process of migrating to NIST Special Publication 800-53, Revision 4, and will be providing periodic updates to relevant stakeholders throughout the next 14 months. Our expected timeframe for completion is December 31, 2016, and this has been documented in Plans of Action & Milestones 996 & 1988 in our Cyber Security Assessment and Management system (CSAM).

4. **OIG Recommendation No. FS-15-04:** Complete the implementation of NIST SP 800-53, Revision 4 controls for common controls, remediation of common controls weaknesses, and make available to system owners in Cyber Security Assessment and Management for appropriate inclusion in their system security plans.

PBGC Response: PBGC agrees with the recommendation. PBGC is in the process of migrating to NIST Special Publication 800-53, Revision 4, and will be providing periodic updates to relevant stakeholders throughout the next 14 months. Our expected timeframe for completion is December 31, 2016, and this has been documented in Plans of Action & Milestones 996 & 1988 in our Cyber Security Assessment and Management system (CSAM).

5. **OIG Recommendation No. FS-15-05:** FOD develop controls to ensure changes in PPS are properly tested prior to being placed into production, including controls to confirm: (1) PBGC's change control processes are followed, and (2) system requirements and design changes are fully documented.

PBGC Response: PBGC agrees with the recommendation. We will develop a corrective action plan in the near future.

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

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

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

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

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