



Pension Benefit Guaranty Corporation

***Office of Inspector General***

Audit Report

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**Audit of the Effectiveness of PBGC's Governance  
of Internal Control**

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***June 9, 2016***

AUDIT-2016-8/PA-15-107



Office of Inspector General  
Pension Benefit Guaranty Corporation

June 9, 2016

TO: Thomas Reeder  
Director

Patricia Kelly  
Chief Financial Officer

FROM: Robert A. Westbrooks  
Inspector General

SUBJECT: Audit of the Effectiveness of PBGC's Governance of Internal Control

I am pleased to transmit the final OIG audit report on the PBGC's governance of internal control. From our work, we recommended PBGC:

- Clarify and communicate Internal Control Committee responsibilities, and as needed, update PBGC policy and guidance, so that areas of authority are consistently delineated and better understood;
- Require participation in the entity-wide risk assessment for all significant program areas, and update and align risk assessment policy and guidance, so risks that are distinctive to PBGC's program areas are identified and analyzed and substantively discussed among PBGC leaders; and
- Update and align agency policy and guidance for conducting the annual the Federal Managers' Financial Integrity Act (FMFIA) assurance statement certifications, to establish the appropriate level of documentation required when managers make the annual FMFIA assurance statement.

PBGC agreed to take action on our recommendations and to implement these actions by November 2017. We appreciate the cooperation we received while performing this audit.



Office of Inspector General  
Pension Benefit Guaranty Corporation

Please note, we made minor modifications to the draft report issued on March 31, 2016. We did not add any new facts, and the modifications and deletions do not affect the findings or recommendations.

cc:

Michael Rae  
Robert Scherer  
Alice Maroni  
Judith Starr  
Karen Morris  
Cathy Kronopolus  
Marty Boehm

# Executive Summary

### Why We Did This Audit

For the last seven years, PBGC has received an adverse opinion on internal control from OIG’s independent public accountants as the result of material weaknesses and significant deficiencies found in the financial statement audit. We performed this audit to identify gaps in PBGC’s internal control framework.

### What We Found

Information and communication within PBGC’s internal control framework could be improved if the Internal Control Committee’s responsibilities were clarified and fulfilled. We found that the ICC is not functioning to provide effective internal control oversight in accordance with its Charter. The ICC met infrequently, conducted relatively brief meetings, and representation on the ICC was inconsistent among PBGC departments. We further found that the ICC is not providing oversight of the annual FMFIA certification process, and is providing limited oversight of the Corporation’s annual risk assessment process. This occurred because the ICC charter does not specify the frequency of meeting requirements. As a result of the lack of more specific guidance on meeting requirements or expectations, the ICC is unable to provide adequate oversight of internal control, risk assessment, and the FMFIA certification process.

We further found that opportunities exist to improve PBGC’s processes for conducting risk assessments and using results. Risk assessment responses were not received from all departments, and managers were confused over how the risk assessment was to be used, if at all. This occurred because the risk assessment process conducted by the Corporate Controls and Reviews Department was not a mandatory exercise, did not require obtaining more specific information, and managers have not seen how PBGC has used the risk assessment. Achieving a common understanding of the risk assessment process would strengthen PBGC’s confidence that it is comprehensively identifying and assessing risks.

We further found that opportunities exist to improve PBGC’s processes regarding the preparation of the annual assurance statements over internal control. PBGC was inconsistent in the type and level of documentation it accepted from departments to support managers’ annual FMFIA assurance statements. This occurred because PBGC policy does not specify the level of documentation required. Absent a requirement for managers to formally document the sources of information used in making their assessment, there is increased risk that serious internal control deficiencies may not be identified and considered as part of the assessment process.

### What We Recommend

- PBGC clarify and communicate ICC responsibilities, and as needed, update PBGC policy and guidance, so that areas of authority are consistently delineated and better understood.
- PBGC require participation in the entity-wide risk assessment for all significant program areas, and update and align risk assessment policy and guidance so risks that are distinctive to PBGC’s program areas are identified and analyzed and substantively discussed among PBGC leaders.
- PBGC update and align agency policy and guidance for conducting the annual FMFIA assurance statement certifications, to establish the appropriate level of documentation required when managers make the annual FMFIA assurance statement.

### Management Comments and Our Response

PBGC management agreed to implement our three recommendations. In particular, PBGC is in the process of completing its FY 2016 entity-wide risk assessment with participation by all significant program areas. PBGC will update and reauthorize the ICC Charter in the near future. PBGC is also working to update and align agency policy and guidance for conducting the annual FMFIA assurance statement certifications. PBGC agreed to take actions on all recommendations by November 2017. The agency’s response is in Appendix E.

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# Background

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Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. For the last seven years, the PBGC has received an adverse opinion on internal control from OIG’s independent public accountants as the result of material weaknesses and significant deficiencies found in the financial statement audit. This report identifies gaps in PBGC’s internal control environment that allow these weaknesses and deficiencies to occur.

Internal control, in the broadest sense, includes the plan or organization, methods and procedures adopted by management to meet its goals. Section 3512 (c) and (d) of Title 31 of the United States Code, commonly referred to as FMFIA requires:

- (1) the Comptroller General to prescribe standards for internal control for the Federal government,
- (2) the Office of Management and Budget to issue guidelines for the evaluation of internal control, and
- (3) the heads of federal agencies to:
  - establish “internal accounting and administrative controls” to, among other things, safeguard assets and ensure revenues and expenditures are properly accounted for to create reliable financial information and asset accountability; and
  - annually submit to the President and the Congress a statement on whether there is reasonable assurance that the agency’s controls are achieving their intended objectives and disclosing any material weaknesses.

In accordance with the statutory requirement, GAO issued the Green Book that establishes government-wide internal control standards, and OMB issued Circular A-123 that guides agency evaluation of internal control, including guidance on the assurance statements required by FMFIA.

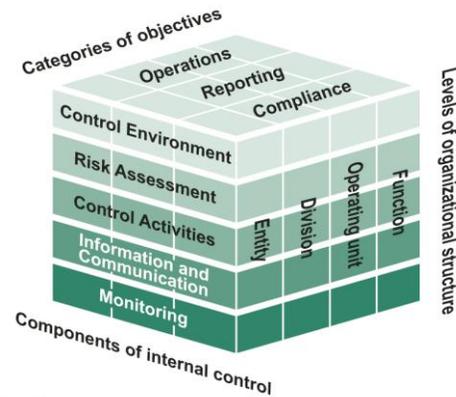
The Comptroller General standards are found in the *Standards for Internal Control in the Federal Government*, commonly known as the GAO Green Book.<sup>1</sup> The Green Book identifies

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<sup>1</sup> GAO issued its revision of *Standards for Internal Control in the Federal Government* (the Green Book) in September 2014. The revision is effective FY 2016. We used the November 1999 version of the Green Book as our criteria for this audit.

controls as continuous built-in components of operations, effected by people, to provide reasonable assurance. There are five components for internal control. These standards are displayed as a cube in the 2014 GAO Green Book standards to demonstrate that the internal control components apply throughout the organization from the entity-wide perspective to individual transactions.

**Figure 1. GAO/COSO Internal Control Framework**

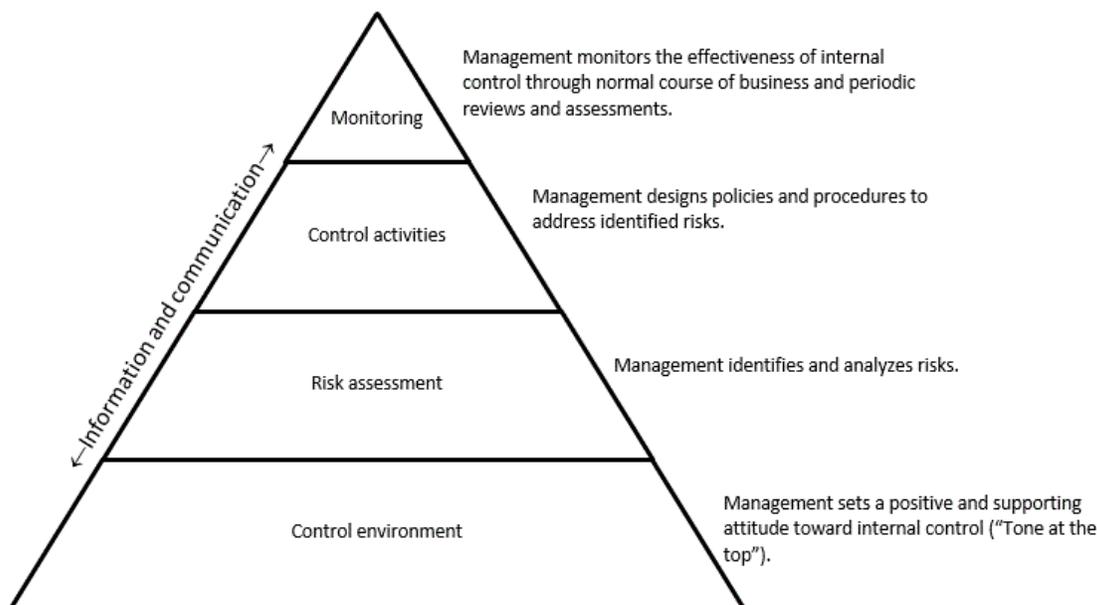


Sources: COSO and GAO. | GAO-14-704G

Source: GAO Green Book

Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objective. Management communicates quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles.

**Figure 2. Components of an Internal Control Framework**



Source: OIG

The OMB guidelines are found in OMB Circular A-123, *Management's Responsibility for Internal Control*, which provides agencies with specific requirements for assessing and reporting on internal control. Section I of the Circular states that internal control should be "an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing" and "provide continual feedback to management."

To foster an environment that promotes compliance with laws and regulations, PBGC maintains two legal compendia – for statutory requirements and for other executive branch requirements. PBGC's FY 2014 annual report states, "PBGC updates and maintains these lists to help ensure compliance with applicable laws, regulations, and other requirements. The compendia provide brief descriptions of each applicable requirement and identifies the PBGC department or other with primary responsibility." PBGC's *Legal Compendium of Executive Orders and OMB Requirements* lists OMB Circular A-123 as applicable to PBGC with no exclusions, and identifies the CCRD (formerly known as Contracts and Controls Review Department) as holding primary compliance responsibility. As such, CCRD is responsible for performing annual control activities for risk assessment, and the assessment of PBGC's internal control over financial reporting, financial systems, and the integrity of program operations in accordance with OMB Circular A-123.

PBGC adopted Directive GA-15-01, *PBGC Management Control Program (03/16/98)*, to implement the management control requirements of the FMFIA and OMB Circular A-123. Directive GA-15-01 provides guidance to PBGC management on improving the accountability and effectiveness of PBGC programs and operations by establishing, assessing, correcting, and reporting on management controls. Under the Directive, CCRD is responsible for implementing the provisions of A-123.

In addition to CCRD, PBGC's internal control program involves:

- the ICC, which provides oversight and accountability regarding PBGC internal controls over financial reporting and its operations consistent with the Standards for Internal Control for the Federal Government, OMB Circular A-123, and FMFIA requirements.
- the Executive Management Committee, which is PBGC's senior management council and the cognizant governing body for the oversight of PBGC-wide internal control and correction of weaknesses. The EMC provides oversight and direction to internal control activities across PBGC and provides counsel to the Director on material weaknesses, corrective action plans, and the content of the annual assurance statement.
- the Quality Management Department, which assesses work processes and customer feedback to identify improvements along with employing business analytics to support continuous process improvement.

# Audit Results

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## **Finding No 1: Information and communications within the Internal Control Framework could be improved if the ICC’s responsibilities were clarified and fulfilled.**

OMB Circular A-123 states that as part of the control environment, management must clearly “define areas of authority and responsibility throughout the agency.” Similarly, the GAO Green Book states, “a good internal control environment requires that the agency’s organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting.” Further, “information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.”

PBGC maintains an ICC to provide oversight and accountability regarding PBGC internal controls over financial reporting and operations. PBGC’s ICC Charter (12/26/2012 – see [Appendix C](#)) outlines responsibilities, some of which include:

- ensuring that internal control work performed by the CCRD is performed in an objective, thorough, and reliable manner, is appropriately documented, and the issues resulting from such work are appropriately reported and considered by management;
- providing oversight of the FMFIA certification process and reviewing significant weaknesses reported as part of that process and recommending to the Director whether any such weaknesses should be reported as material weaknesses under FMFIA;
- providing oversight of the Corporation’s risk assessment processes as they relate to PBGC internal control structure to ensure that identified risks are mitigated to the maximum extent practicable and necessary changes are made to PBGC’s internal control to reflect changes to the risk environment;
- reviewing the OIG’s report on internal control, including management letter and other reports, and determining necessary steps, including review of corrective action plans and associated costs (particularly with attention to any reportable conditions and material weaknesses); and
- reviewing and assessing the impact of recent professional and regulatory pronouncements and guidance, changes in reporting structures, and other changes to the PBGC operating environment, and understand the impact on PBGC internal control structure and the financial statements and determining necessary actions.

These responsibilities are essential to ensure compliance with federal internal control standards and, in particular, the ICC plays an essential role in ensuring that information and communications relating to internal control flows throughout the organization.

In summary, we found that the ICC is not functioning to provide effective internal control oversight in accordance with its Charter. The ICC met infrequently, conducted relatively brief meetings, and representation on the ICC was inconsistent among PBGC departments. We further found that the ICC is not providing oversight of the annual FMFIA certification process, and is providing limited oversight of the Corporation's annual risk assessment process.

### ***ICC Meetings and Control Activities***

According to ICC meeting minutes for the period dated April 16, 2012 to April 1, 2015, the ICC met a total of 10 times (not including 2 email votes) for an average of 46 minutes per meeting. ([Appendix D, Table 2](#)) It would be difficult for the ICC to effectively discharge its charter responsibilities during these infrequent and brief meetings. The meeting minutes reflect limited oversight regarding risk assessment and the annual assertions on the assessment of internal controls. For example, we found no evidence that the FMFIA assurance statements were ever discussed at ICC meetings. The risk assessment was discussed in 4 of 10 meetings over the course of 3 years. In fact, CCRD's instructions for the 2014 risk assessment state that the risk assessment results would be provided to the EMC and department directors, not the ICC. Subsequent to our inquiry, CCRD officials reported the ICC held eight additional meetings and two email votes from April 7, 2015 to September 28, 2015.

ICC meeting minutes did not demonstrate review of significant OIG reports on internal control, nor the impact of recent professional and regulatory pronouncements and guidance, changes in reporting structures, or other changes to the PBGC operating environment as required by the responsibilities set forth in the Charter. ([Appendix D, Table 1](#))

The infrequent and relatively brief meetings occurred because the ICC schedules meetings as needed and the ICC charter does not specify the frequency of meeting requirements. The charter instructs the ICC to meet "as circumstances require." According to one senior management official, the ICC meetings were driven by the need to consider a change to a key internal control. As a result of the lack of more specific guidance on meeting requirements or expectations, the ICC is unable to provide adequate oversight of internal control, risk assessment, and the FMFIA certification process.

### ***ICC Representation***

The ICC charter states the committee will include representatives from different business areas within the organization, including the OIG as a non-voting representative. The Charter also states if a committee member cannot attend, a member may send a representative as long as they have the “authority to act for that member in their capacity.” We found variation in the position and level of responsibility among department ICC representatives. For example, the Chief Financial Officer attends for the Office of the CFO, the Deputy General Counsel attends for the OGC, while other EMC offices and departments were represented by employees at lower levels of responsibility. In addition, the Chief Management Officer is represented by only one of its five departments, the Human Resources Department, with no ICC representation by other significant CMO business areas, including the Budget Department, the Procurement Department, the Quality Management Department, and the Workplace Solutions Department. Because PBGC policy does not provide specific and consistent guidance on ICC representatives, the ICC is limited in its ability to act and provide effective oversight and accountability regarding internal controls.

### ***Oversight of the FMFIA Process***

We found that the ICC was not part of the process of reporting significant weaknesses to the Director and recommending whether such weaknesses should be reported as material weaknesses under FMFIA, as required under its Charter. This occurred because of PBGC’s conflicting activities and policy guidance on who is responsible for oversight of the FMFIA process. Under its charter, the ICC is responsible for reviewing reported significant weaknesses and recommending to the Director whether such weaknesses should be reported as material weaknesses under FMFIA. These same responsibilities are also outlined in an associated directive, GA-15-01, *PBGC’s Management Control Program (03/16/1998)*. We observed that in practice, PBGC’s EMC had assumed responsibility for this function. This duty is not part of the EMC’s charter; however, a recent CCRD Standard Operating Procedure vested this responsibility with the EMC. As a result, these conflicting policies and practices can restrict PBGC from properly managing the annual FMFIA certification function.

### **Recommendation No. 1 (OIG Control Number CCRD-21)**

We recommend that PBGC:

Clarify and communicate ICC responsibilities, and as needed, update PBGC policy and guidance, so that areas of authority are consistently delineated and better understood.

### **PBGC Response and OIG Evaluation**

**Resolved.** PBGC agreed with the recommendation and plans to complete this recommendation by January 31, 2017. This recommendation can be closed when PBGC completes its corrective

actions: reauthorize and update the ICC Charter based on the Green Book and A- 123, hold regular ICC meetings, and provide to the ICC subject matter experts relevant to the issues on meeting agendas. For the interim, meeting minutes illustrating the communication of the ICC's responsibilities are sufficient until reauthorization of the charter.

## **Finding No 2: Opportunities exist to improve PBGC's processes for conducting risk assessments and using results.**

Under OMB Circular A-123, management should identify internal and external risks that may prevent the organization from meeting its objectives. Managers should first "define the control environment and then perform risk assessments to identify the most significant areas within that environment in which to place or enhance internal control." When identifying risks, management should take into account "relevant interactions within the organization as well as with outside organizations."

Similarly, the Green Book recognizes that although risk analysis methodologies may vary by agency, comprehensive identification of risks is important. In the Risk Assessment section, GAO states management should "consider all significant interactions between the entity and other parties as well as internal factors at both the entity wide and activity level." That section further states: "Once risks have been identified, they should be analyzed for their possible effect. Risk analysis generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how to manage the risk and what actions should be taken."

This analytical process of considering external and internal inter-related activities implies involvement of multiple functions and people within the organization. If undertaken in this way, agencies can ensure that information is effectively communicated, "flowing down, across, and up the organization."

CCRD's instructions to risk assessment recipients for rating risk in FY 2014 stated:

Assessing risk is a fundamental part of PBGC's Internal Control Program and supports compliance with Appendix A of OMB Circular A-123. It helps us understand the risks PBGC faces and how our controls should be adapted, and provides input to our annual assurance statement process under the Federal Managers' Financial Integrity Act (FMFIA) and Statement.

As discussed below, we found that not all departments participated in the entity-wide risk assessment. Risk assessment responses were not mandatory, and managers were confused over how the risk assessment was to be used, if at all. As a result, risks are not being comprehensively identified and mitigated.

***Not all PBGC departments are identifying and communicating program risks.***

To conduct its entity-wide analysis of risk, CCRD distributed a form to department and program area managers, asking respondents to review a pre-determined list of identified long and near-term risks to estimate significance and likelihood of occurrence. CCRD officials reported that over the years, they provided department directors opportunities to make changes to the list of risks prior to rating them.

We found many program office and department officials did not participate in the entity-wide risk assessment. Upon reviewing submissions from FY 2012 through FY 2014, we found CCRD did not centrally maintain the risk assessment documentation it collected. Some FY 2012 submissions were unavailable for our review, so we could not determine the response rate. Out of 17 departments and program offices, participation in PBGC's FY 2013 and FY 2014 entity-wide risk assessment response rate was 65% and 59%, respectively. Due to a significant lack of managers' participation and CCRD not maintaining all supporting documentation, we were unable to determine if the annual risk assessments demonstrated the level of assurance necessary to support a FMFIA assertion.

***It is not clear how risk assessment results are used within PBGC.***

PBGC managers' level of knowledge and understanding of the risk assessment varied (see [Appendix D, Table 3](#)). Of the eight agency representatives we interviewed, only two could articulate why the agency performed the risk assessment and how management would use the results, even though all managers generally believed risk assessment to be a valuable process. Some managers believed the entity-wide risk assessment did not apply to the specifics of their operations. At least one department, the Office of Benefits Administration, reported it conducted its own risk assessment; however, that assessment was not included as part of CCRD's risk assessment. Some department directors stated the results were provided to them at the department directors' meeting per CCRD's risk assessment instructions; we could not verify this was a substantive discussion of results among PBGC leaders or simply a statement of data CCRD received. We found limited discussions of the risk assessment results in ICC minutes or other documents we received.

Prior OIG audit work determined that risks were not mapped to controls. The CCRD staff member responsible for the FY 2014 entity-wide risk assessment stated that control testing did not align with the timing of the risk assessment. The CCRD Director stated he believed there should be some additional components to the risk assessment; for example, listed risks should be mapped to controls, which is not currently done. We noted weaknesses in PBGC's internal control process in our Fiscal Year 2014 Management Letter issued as a result of the annual financial statement audit. We reported that PBGC procedures did not describe the criteria used

to select control activities to be tested, how the controls are chosen, and provided ineffective guidance for completion of the entity-wide risk assessment. We recommended that PBGC should develop a mapping document that clearly outlines the connection between the risk assessment and Entity Wide Controls tested for A-123. PBGC agreed with the recommendations and stated corrective actions are in process.

These conditions occurred because the risk assessment process conducted by CCRD was not a mandatory exercise, did not require obtaining more specific information, and managers have not seen how PBGC has used the risk assessment. PBGC Directive GA-15-01, *PBGC's Management Control Program (03/16/98)*, did not contain details for risk assessments, and had not been updated in more than 17 years. CCRD senior officials reported to us that, prior to April 2015, they had no written procedures for conducting the entity-wide risk assessment. When asked about the purpose of the entity-wide risk assessment and whether or not it was helpful, the CCRD staff member in charge of overseeing the process for entity-wide risk assessment deferred to the CCRD Director, and characterized the risk assessment as just an exercise. None of the department directors and program managers had the same understanding of what they or PBGC was to do with the results of the risk assessment. Achieving a common understanding of the risk assessment process would strengthen PBGC's confidence that it is comprehensively identifying and assessing risks.

## **Recommendation No. 2 (OIG Control Number CCRD-22)**

We recommend that PBGC:

Require participation in the entity-wide risk assessment for all significant program areas, and update and align risk assessment policy and guidance so that risks which are distinctive to PBGC's program areas are identified and analyzed and substantively discussed among PBGC leaders.

### **PBGC Response and OIG Evaluation**

**Resolved.** PBGC agreed with the recommendation and plans to complete this recommendation by November 30, 2017. This recommendation can be closed when PBGC completes its corrective actions: all significant program areas participate in the FY 2016 entity wide risk assessment; the Risk Management Council develops a PBGC risk profile, determines risk tolerance and risk appetite, and oversees the risk identification and assessment process; and PBGC incorporates additional risk management guidance into existing procedures.

### **Finding No 3: Opportunities exist to improve PBGC's processes to prepare annual assurance statements over internal controls.**

The Government Corporation and Controls Act and FMFIA require PBGC to prepare annual assurance statements over internal controls and include them in the publicly-available annual report. OMB Circular A-123 requires management to determine the appropriate level of documentation to support the annual assurance statements, which should include an audit trail with verifiable results. At Section I. A., the Circular states:

Generally, identifying and implementing the specific procedures necessary to ensure effective internal control, and determining how to assess the effectiveness of those controls, is left to the discretion of the agency head. While the procedures may vary from agency to agency, management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail, verifiable results, and specify document retention periods so that someone not connected with the procedures can understand the assessment process.

Similarly, the GAO Green Book provides documentation guidance: "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form."

As discussed below, PBGC was inconsistent in the type and level of documentation it accepted from departments to support managers' annual FMFIA assurance statements. This occurred because PBGC policy does not specify the level of documentation required. Absent a requirement for managers to formally document the sources of information used in making their assessment, there is increased risk that serious internal control deficiencies may not be identified and considered as part of the assessment process and this could negatively impact FMFIA reporting.

#### ***PBGC Did Not Specify the Level of Documentation Needed to Support the Annual Assurance Statements***

We found a lack of consistency in the type and level of documentation among departments to support the assurance statements. Packages we reviewed typically contained narratives only when a department had a known significant deficiency or material weakness that had been identified in the annual financial statement audit. For example, the Benefits Administration and Payments Department and Office of Information Technology Department completed narratives of existing material weaknesses and planned corrective actions. None of the packages we observed, however, contained more detailed documentation describing their method of assessment, considerations in making the assessment, or any additional self-identified

deficiencies. The level of documentation required was not specified in Directive GA-15-01 or CCRD instructions. Though one manager stated he completed a memo when performing his assessment, four managers stated they did not document the basis for their assessments – for example, OIG and GAO reports, other third party reviews, or internal self-assessments.

This occurred because PBGC policy did not specify the documentation requirements for annual assurance statements and managers were provided with minimal instructions in preparing annual assurance assessments. For example, CCRD only required program office officials to submit a narrative in the event they were disclosing a significant deficiency or material weakness, and to certify whether the internal controls in place within their area of responsibility, taken as a whole, provided reasonable assurance that controls relating to PBGC operations and financial reporting were effective, and provided for compliance with FMFIA. However, CCRD's instructions did not require program office officials to submit information to support how they assessed their internal controls – that is, what they considered and how they decided what to report. And, neither PBGC's directive GA-15-01 nor CCRD's newly implemented procedures, *Internal Control Assessment Procedures, III.J, Annual PBGC FMFIA Certifications*, (04/24/15) made this a requirement.

The absence of a policy specifying the level of documentation required to support a manager's assessment results in an increased risk that not all actual or potential risks are being communicated to the PBGC Director, and he may have less than complete information upon which to base his assurance statements. We found some program risks, identified through prior OIG audit work, that were not reported to the PBGC Director by the program office. For example:

- the Human Resources Department failed to report control weaknesses related to its review and approval process within the Incentives and Compensation Flexibilities Program.<sup>2</sup>
- the Corporate Finance and Restructuring Department failed to report programmatic weaknesses in PBGC's processes for monitoring, enforcing, and modifying negotiated funding agreements.<sup>3</sup>
- the Policy Research and Analysis Department failed to report internal control issues regarding the FY 2010 Exposure Report, which contained numerous errors and

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<sup>2</sup> PBGC's Incentives and Compensation Flexibilities Program To Recruit and Retain a Qualified Workforce Was Administered Inconsistently, September 30, 2014 (<http://oig.pbgc.gov/pdfs/PA-12-86.pdf>).

<sup>3</sup> Increased Oversight, Internal Controls and Performance Accountability Needed for PBGC's Monitoring, Enforcing and Modifying Negotiated Funding Agreements, March 21, 2014 (<http://oig.pbgc.gov/summaries/PA-11-80.html>).

inconsistencies and did not meet information quality guidelines for federal agencies or PBGC policy.<sup>4</sup>

- CCRD failed to report control weaknesses resulting from risks not being mapped to internal controls.<sup>5</sup>

Failure to formally document the consideration of known internal control deficiencies as part of the assessment process presents a risk to the FMFIA reporting process and the Director's reliance on subordinates' assurance statements.

### **Recommendation No. 3 (OIG Control Number CCRD-23)**

We recommend that PBGC:

Update and align agency policy and guidance for conducting the annual FMFIA assurance statement certifications, to establish the appropriate level of documentation required when managers make the annual FMFIA assurance statement.

### **PBGC Response and OIG Evaluation**

**Resolved.** PBGC agreed with the recommendation and plans to complete this recommendation by January 31, 2017. This recommendation can be closed when the PBGC completes its corrective actions: update and align agency policy and guidance for conducting the annual FMFIA assurance statement certifications, bolster the documentation required when managers make the annual FMFIA Statement of Assurance, and update internal control policy and guidance.

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<sup>4</sup> Ensuring the Integrity of Policy Research and Analysis Department's Actuarial Calculations, May 21, 2012 (<http://oig.pbgc.gov/summaries/PA-12-87.html>).

<sup>5</sup> Fiscal Year 2014 Financial Statement Audit Management Letter, February 27, 2015. For purposes of information security, the contents of this report are not publicly available.

# APPENDIX A: Objective, Scope and Methodology

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## Objective

Our objective was to determine the effectiveness of PBGC's governance of internal control, with emphasis on the entity-wide risk assessment and resulting impact on PBGC's internal control testing according to applicable laws, regulations and guidance.

## Scope

To accomplish our audit objective, we analyzed PBGC's governance structure of internal control. We assessed the efficiency and effectiveness of PBGC's control activities from April 2012 to April 2015, as more specifically described in the methodology. We performed fieldwork at PBGC Headquarters in Washington, D.C. from March 2015 through August 2015.

## Methodology

We performed the following procedures to answer our objective:

- Obtained an understanding and assessed the effectiveness of significant internal control within the context of the audit objectives.
- Obtained and reviewed applicable federal laws, regulations and guidance, as well as PBGC policies and procedures.
- Obtained and reviewed PBGC's entity-wide risk assessments from FY 2012 through FY 2014, and evaluated the purpose and use of the annual entity-wide risk assessment conducted by the controls department at PBGC.
- Judgmentally selected and interviewed PBGC officials and staff, including members of the EMC and CCRD.
- Obtained and reviewed PBGC's FMFIA assertion statements from FY 2010 through FY 2014 and compared the assertion statement responses to OIG findings.

The performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Use of Computer-Processed Data**

Our audit focused on the governance of the internal control program. To assess the reliability of program level risk assessments that are submitted and electronically combined for the entity-wide risk assessment, we interviewed agency officials and corroborated to supporting evidence on a selected basis. Since no issues were identified, we found the data to be sufficiently reliable for the purposes of this report.

## **Review of Internal Controls**

We assessed the internal controls within the control environment that relate to our audit objectives. To determine the effectiveness of PBGC's governance of internal control, we assessed the controls by interviewing PBGC officials, management and staff. We reviewed PBGC directives, policies, and procedures. Additionally, we performed a walkthrough of their entity wide control testing for further understanding of the controls. As discussed in the report, we identified weaknesses relating to the overall control environment and standards for information and communication of internal control within PBGC's internal control framework.

## APPENDIX B: Acronyms

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|            |  |
|------------|--|
| CCRD.....  | Corporate Controls and Reviews Department                        |
| CFO.....   | Chief Financial Officer  |
| CFR.....   | Code of Federal Regulations                                      |
| CMO.....   | Chief Management Officer   |
| CIGIE..... | Council of Inspectors General on Integrity and Efficiency        |
| COSO.....  | Committee of Sponsoring Organizations of the Treadway Commission |
| EMC.....   | Executive Management Committee                                   |
| ERISA..... | Employee Retirement Income Security Act of 1974                  |
| FMFIA..... | Federal Managers' Financial Integrity Act                        |
| GAO.....   | Government Accountability Office                                 |
| ICC.....   | Internal Control Committee                                       |
| OGC.....   | Office of General Counsel  |
| OIG.....   | Office of Inspector General                                      |
| OMB.....   | Office of Management and Budget                                  |
| PBGC.....  | Pension Benefit Guaranty Corporation                             |

# APPENDIX C: ICC Charter

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## Charter for the Internal Control Committee

### PURPOSE

To provide oversight and accountability regarding PBGC internal controls over financial reporting and its operations consistent with the Standards for Internal Control for the Federal Government (GAO Green Book), OMB Circular A-123, and Federal Managers' Financial Integrity Act (FMFIA) requirements.

### MEMBERSHIP

The Internal Control Committee will include representatives from the following business areas:

- Chief Financial Officer (Internal Control Committee Chair): [REDACTED]
- Office of Policy and External Affairs representative: [REDACTED] PRAD
- Chief Management Officer representative: [REDACTED]
- Office of Information Technology representative: [REDACTED]
- Office of the General Counsel representative: [REDACTED]
- Financial Operations Department representative: [REDACTED]
- Contracts and Controls Review Department representative: [REDACTED]
- Chief Negotiations and Restructuring: [REDACTED]
- Benefit Administration and Payments Department representative: [REDACTED]
- Office of Inspector General non-voting representative: [REDACTED]

### MEETINGS

The committee will meet as circumstances require. All committee members are expected to attend each meeting or to send a representative. If a Committee member cannot attend, a member may send a representative as long as they have the authority to act for the member in their capacity. The committee will invite members of management, representatives of the Office of Inspector General or its external CPA firm, or others to attend meetings and provide pertinent information, as necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared by a representative of the Contracts and Controls Review Department and shared with members of the committee for their review and approval.

## RESPONSIBILITIES

The responsibilities of the Internal Control Committee include the following:

- overseeing the process by which PBGC internal controls (controls over financial reporting and operations) are documented and assessed within the Corporation and ensuring that changes to internal control requirements are effectively implemented throughout the Corporation;
- providing recommendations to the Operations Integration Board and the Budget Priorities Integration Team regarding the level of:
  - monitoring resources required to effectively monitor internal controls with regard to the Standards for Internal Control for the Federal Government, the requirements of the Federal Managers' Financial Integrity Act and OMB Circular A-123, and other internal control requirements applicable to PBGC, and
  - remediation resources needed to address noted material weaknesses and other major internal control issues and the relative urgency of addressing those issues;
- providing oversight over PBGC's system of internal controls to help ensure that the internal controls provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authority and significant provisions of applicable laws and regulations, and that such transactions are properly recorded, processed, and summarized in a manner that is consistent with generally accepted accounting principles;
- reviewing the Office of Inspector General's report on internal control, including management letter and other report and determining necessary steps, including review of corrective action plans and associated costs (particularly with attention to any reportable conditions and material weaknesses);
- ensuring that actions required in response to OIG and GAO recommendations, as well as, major internal control issues (especially, cross-cutting internal control issues) identified by management are addressed in a timely and effective manner;
- ensuring that internal control work performed by the Contracts and Controls Review Department (or other parties) is performed in an objective, thorough, and reliable manner, is appropriately documented, and the issues resulting from such work are appropriately reported and considered by management;
- providing oversight of the FMFIA certification process and reviewing significant weaknesses reported as part of that process and recommending to the Director whether any such weaknesses should be reported as material weaknesses under FMFIA;

- reviewing and assessing the impact of recent professional and regulatory pronouncements and guidance, changes in reporting structures, and other changes to the PBGC operating environment, and understand the impact on PBGC internal control structure and the financial statements and determining necessary actions; and
- providing oversight of the Corporation's risk assessment processes as they relate to PBGC internal control structure to ensure that identified risks are mitigated to the maximum extent practicable and necessary changes are made to PBGC's internal controls to reflect changes to the risk environment.

# APPENDIX D: Tables

**Table 1:** Analysis of the ICC’s involvement in overseeing internal control activities

| Topics Referenced in ICC Minutes              |                  |                             |   |                    |                                       |
|---|------------------|-----------------------------|---|--------------------|---------------------------------------|
| Date  | Internal Control | Entity Wide Risk Assessment | Federal Managers’ Financial Integrity Act | Regulatory Changes | Changes to PBGC Operating Environment |
| April 16, 2012<br><i>47 mins</i>              | ✓                | ✓                           |   |                    |                                       |
| April 18, 2012 <sup>6</sup><br><i>60 mins</i> | ✓                | ✓                           |   |                    |                                       |
| August 30, 2012<br><i>36 mins</i>             | ✓                |                             |   |                    |                                       |
| Dec 18, 2012<br><i>47mins</i>                 | ✓                |                             |   |                    |                                       |
| August 22, 2013<br><i>51 mins</i>             | ✓                |                             |   |                    |                                       |
| March 19, 2014<br><i>Email vote</i>           | ✓                |                             |   |                    |                                       |
| April 10, 2014<br><i>No adjourn time</i>      | ✓                |                             |   |                    |                                       |
| May 19, 2014<br><i>Email vote</i>             | ✓                |                             |   |                    |                                       |
| June 5, 2014<br><i>29 mins</i>                | ✓                | ✓                           |   |                    |                                       |
| March 30, 2015<br><i>49 mins</i>              | ✓                | ✓                           |   |                    |                                       |
| March 31, 2015<br><i>59 mins</i>              | ✓                |                             |   |                    |                                       |
| April 1, 2015<br><i>37 mins</i>               | ✓                |                             |   |                    |                                       |
| Total   | 12               | 4                           | 0   | 0                  | 0                                     |

<sup>6</sup> Minutes did not reflect discussion of the FY 2012 risk assessment.

**Table 2:** ICC meetings April 16, 2012 through April 1, 2015,<sup>7</sup> with attendance, length, and mode of meeting.<sup>8</sup>

| The length of ICC Meetings    |  | 4/16/12  |          |          | 4/18/12  |          |          | 8/30/12  |          |          | 12/18/12 |          |          | 8/22/13 |    |    | 03/19/14 |    |    | 04/10/14 |    |    | 05/19/14 |    |    | 06/05/14 |    |    | 03/30/15 |    |    | 03/31/15 |    |  | 04/01/15 |  |  |
|-------------------------------|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----|----|----------|----|----|----------|----|----|----------|----|----|----------|----|----|----------|----|----|----------|----|--|----------|--|--|
|                               |  | 47       | 47       | 46       | 47       | 47       | 46       | 47       | 47       | 47       | 47       | 47       | 47       | 47      | 47 | 47 | 47       | 47 | 47 | 47       | 47 | 47 | 47       | 47 | 47 | 47       | 47 | 47 | 47       | 47 | 47 | 47       | 47 |  |          |  |  |
| Dates                         |  | 04/16/12 | 04/18/12 | 08/30/12 | 12/18/12 | 08/22/13 | 03/19/14 | 04/10/14 | 05/19/14 | 06/05/14 | 03/30/15 | 03/31/15 | 04/01/15 |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |
| ICC Members by Business Areas |  | CFO      |          | -        |          |          |          |          |          |          |          |          |          |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |
|                               |  | BAPD     |          |          |          |          |          |          |          |          |          |          |          |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |
|                               |  | CCRD     |          |          |          |          |          |          |          |          |          | -        |          |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |
|                               |  | CMO      |          |          |          |          |          |          |          |          |          | -        | -        |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |
|                               |  | ONR      |          | -        |          |          |          |          |          |          |          |          |          |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |
|                               |  | FOD      |          |          |          |          |          |          |          |          |          |          |          |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |
|                               |  | OGC      |          |          |          |          |          |          |          |          |          |          |          |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |
|                               |  | OIG      |          |          |          |          |          |          |          |          |          |          |          |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |
|                               |  | OIT      | -        | -        |          |          |          |          |          |          |          |          |          |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |
|                               |  | OPEA     |          |          |          |          |          |          |          |          |          |          |          |         |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |    |          |    |  |          |  |  |

<sup>7</sup> Subsequent to our inquiry, CCRD officials reported that the ICC held eight additional meetings and two email votes from April 7 to September 28, 2015.

<sup>8</sup> OIG is a non-voting member of the Internal Control Committee.

**Table 3:** Notes from PBGC officials regarding their understanding of the EWRA.

| Of the eight agency representatives we spoke with, five PBGC officials stated they did not use PBGC's entity-wide risk assessment, in addition to the CCRD representative responsible for the FY 2014 EWRA. |  |              |   |
|---|--|--------------|---|
| Official  | Uses   | Does Not Use | Comments  |
| 1   | Office of Negotiations & Restructuring, Chief                        |              | ✓<br>Understood the EWRA and believed it to be a valuable tool. He also stated the agency's EWRA was very open ended, and was unsure if he used it at all. He would have to review the EWRA again to see if it tied to controls in his department.  |
| 2   | Acting PBGC Director   | ✓            |   |
| 3   | Quality Management Department, Director                              |              | ✓<br>Took risk assessment seriously, but believed the agency EWRA could be clearer as to how it relates to her department. She did not use the results to make her FMFIA assertion.   |
| 4   | Policy, Research, and Analysis Department, Director                  |              | ✓<br>Believed risk assessment to be useful, but did not use PBGC's EWRA for anything. He does not use it for making his FMFIA assertion.  |
| 5   | Human Resources Department, Director                                 |              | ✓<br>Does not believe PBGC's EWRA provides any value in its current state and risks were not aligned with risks in her department.  |
| 6   | Benefits Administration and Payment Department, Director             |              | ✓<br>CCRD's EWRA was not specific to what they do in BAPD. They developed their own. In the past, CCRD's EWRA were open to a great deal of interpretation.  |
| 7   | Acting Chief Management Officer                                      | ✓            |   |
| 8   | CCRD Representative in charge of FY 2014 Entity Wide Risk Assessment |              | ✓<br>None of the directors had the same understanding of what to do with the EWRA. It was just an exercise. Timing of the risk assessment prevented alignment with controls testing performed. She did not know what the current entity-wide risk assessment was used for, or why the timing did not coincide with current controls testing. She did not believe the current entity-wide risk assessment was effective to adequately define risks, there were no instructions for it, and she did not know why it did not align with current year's controls testing but thought it should. She would like it to be part of their internal control process going forward. |

# APPENDIX E: Agency Response

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## MEMORANDUM



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

Office of the Director

April 8, 2016

TO: Robert A. Westbrook  
Inspector General

FROM: W. Thomas Reeder /s/  
Director

SUBJECT: Response to the Office of Inspector General's (OIG) Draft Report on the Effectiveness of PBGC's Governance of Internal Control

Thank you for the opportunity to comment on the draft report. Overall, we are in agreement with your recommendations and appreciate the work that your office put into making improvements in this important area.

PBGC takes internal controls very seriously and is one of the few federal agencies that receives a separate opinion on internal controls. Corrective actions to address our remaining weaknesses cited in the internal control audit report are on track and represent a top corporate focus.

We agree that improvements to the PBGC's Internal Control Program can be made, and we are already in the process of reevaluating existing practices, especially given the issuance of the updated requirements in GAO's *Standards for Internal Control in the Federal Government* (Green Book), and the pending issuance of an update to OMB's Circular A-123, the draft of which is titled, *Management's Responsibility for Risk Management and Internal Controls*.

Our responses to the specific recommendations included in the report follow:

- **OIG Recommendation No. 1:** Clarify and communicate ICC responsibilities and, as needed, update PBGC policy and guidance, so that areas of authority are consistently delineated and better understood.

**Response:** We are reviewing the responsibilities of the Internal Control Committee (ICC) and will update and reauthorize the ICC Charter in the near future. Given ongoing Green Book implementation and the expected update to OMB Circular A-123, we plan on holding monthly meetings for the balance of FY 2016 and at least for the first six months of FY 2017—possibly longer. We will reevaluate meeting frequency during FY 2017 and will ensure meetings are appropriately focused to ensure the responsibilities of the ICC are fulfilled. While the current membership represents the entire corporation, with each C-level having representation for their respective areas, we will ensure that subject matter experts relevant to the issues on meeting agendas are available to the Committee. Given the need for cycle time to demonstrate effectiveness, we expect to complete this recommendation by January 31, 2017.

- **OIG Recommendation No. 2:** Require participation in the entity-wide risk assessment for all significant program areas, and update and align risk assessment policy and guidance, so that risks which are distinctive to PBGC's program areas are identified and analyzed and substantively discussed among PBGC leaders.

**Response:** PBGC is in the process of completing its FY 2016 entity-wide risk assessment with participation by all significant program areas. In addition, PBGC is in the midst of reevaluating its risk management activities, including those related to the entity-wide risk assessment, in the context of the expected update to OMB Circular A-123. The new version is expected to require agencies to implement Enterprise Risk Management. In preparation for this change, PBGC has recently established a Risk Management Council, which will be chaired by the agency's Risk Management Officer. The Risk Management Council will be accountable to the Executive Management Committee and the Director and will coordinate its work with the Internal Control Committee. As part of its work, it will develop a PBGC risk profile, determine risk tolerance and risk appetite levels, and oversee the agency's risk identification and risk assessment processes. PBGC will also incorporate additional guidance regarding risk management into existing procedures. We expect to complete implementation of this recommendation by November 30, 2017.

- **OIG Recommendation No. 3:** Update and align agency policy and guidance for conducting the annual FMFIA assurance statement certifications, to establish the appropriate level of documentation required when managers make the annual FMFIA assurance statement.

**Response:** We are currently reviewing this area and working to update and align agency policy and guidance for conducting the annual FMFIA assurance statement certifications. We are also exploring ways of bolstering the documentation required when managers make the annual Federal Managers' Financial Integrity Act (FMFIA) Statement of Assurance. In addition, we will update internal control policy and guidance included in the PBGC Directive GA-15-01. We expect to have improved documentation in place for the FY 2016 reporting cycle. In order to allow for sufficient cycle time, we estimate completing this recommendation by January 31, 2017.

As we move forward, we remain committed to a vibrant internal control environment here at PBGC, and look forward to supporting the important work of your office in promoting accountability regarding PBGC internal controls.