

Semiannual Report to Congress



Pension Benefit Guaranty Corporation
Office of Inspector General

October 1, 2013 to March 31, 2014



Pension Benefit Guaranty Corporation

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

April 30, 2014

The Board of Directors
Pension Benefit Guaranty Corporation

I am pleased to present the Office of Inspector General (OIG) Semiannual Report for the Pension Benefit Guaranty Corporation (PBGC) for the period October 1, 2013 – March 31, 2014. During this period we issued ten audit and evaluation reports with 54 recommendations for improvement. We completed six investigations, resolved 39 complaints, referred five cases for prosecution and issued three Management Advisory Memoranda.

PBGC Made Substantial Progress in Closing Audit Recommendations. For the past two years we have raised with the Board and in our report to Congress our concern with the high number of open audit recommendations. From October 1 – December 31, 2013, OIG was able to concur in closure of 62 audit recommendations. This is an unprecedented number of closures, resulting in 118 open recommendations as of the end of the year. From January through March, PBGC closed two more recommendations. During the same time period, however, OIG issued four more reports that resulted in an additional 47 recommendations bringing the total as of March 31 to 163. We continue to work with PBGC management to address these open recommendations.

PBGC Received its 21st Consecutive Unmodified Financial Statement Audit Opinion. PBGC is to be commended for this important milestone. However, because of the poor control environment, the auditors had to conduct a greater amount of substantive testing to gain assurance that the financial information was fairly presented in all material aspects. PBGC was able to provide sufficient evidence for the auditors to so conclude. The control environment led to the fifth consecutive adverse opinion on internal control.

PBGC Internal Control Weaknesses Remain. In previous reports to Congress we noted the pervasive nature of control issues the Corporation needs to address and the extended time required to mitigate the associated vulnerabilities. This includes the three material weaknesses and one significant deficiency that comprise the adverse opinion on internal control issued as part of the financial statement audit. Many of the issues underlying the adverse internal control opinion have existed for years – there are 47 recommendations in that report, 29 (62%) of which were issued five or more years ago. All of these old recommendations deal with information technology security; the passage of time has exacerbated the risks and previously-planned solutions must be revisited. New leadership of the departments who must correct the material weaknesses are taking them seriously, have developed specific accountability plans, are meeting with the OIG regularly to report on progress, and have communicated that twelve recommendations are ready for our closure review. I appreciate the Board's focus on PBGC's correction of these weaknesses.

Notwithstanding the understanding of controls by those involved with the financial audit, as OIG conducts performance audits in areas that it has not reviewed previously, we are finding that management struggles to design, implement, and monitor controls - there are often no policies and procedures and very few controls in place. Without internal controls, managers often have no way of confirming that a process has been performed as expected. In some areas of the corporation, there is a fundamental lack of control consciousness and awareness among management.

Our work, including audits that are Congressionally requested or mandated by statute, will continue to address this challenging internal control environment.

I am proud of the OIG staff who worked hard to produce work that has a significant impact on PBGC's operations. I commend them. I appreciate the Board's support, through regular Board meetings, monthly scheduled teleconferences with the Board Representatives led by DOL Assistant Secretary for EBSA, Phyllis Borzi, and the informal communications with Board staff. These interactions between the Inspector General and those charged with governance are critical to effective oversight. I also appreciate the effective working relationship I have built with PBGC's Director and Executives, with whom I meet regularly. We all have the same goal – to make PBGC the best agency it can be as it carries out its mission to protect participants in defined benefit pension plans.



Deborah Stover-Springer
Acting Inspector General

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Executive Summary

This Semiannual Report to Congress summarizes the activities and accomplishments of the Pension Benefit Guaranty Corporation (PBGC) Office of Inspector General (OIG) for the period October 1, 2013 through March 31, 2014.

- Internal controls continue to be a management challenge.
 - To its credit, PBGC submitted documentation that enabled us to concur in the closure of 62 audit recommendations in the first three months of this period. Highlights of these closures include: 39 of those closed had been open two years or more and 11 had been open five years or more; the Benefits Administration and Payments Department closed 35 recommendations; and the Procurement Department closed 7 and for the first time in many years has no open recommendations.
 - Our newly issued reports contained 54 recommendations for improvement. Of the 163 open at the end of this period, 113 relate to the financial statement audits, 47 of which are associated with the three material weaknesses.
- We issued ten audit and evaluation reports, including:
 - An audit of the effectiveness of PBGC's processes for monitoring, enforcing and modifying negotiated funding agreements that PBGC enters into with plan sponsors of defined benefit pension plans. We found that PBGC operated its negotiated funding agreement activity without clearly defined objectives or documented operating procedures (see pages 9-10).
 - Four audit reports related to the audit of PBGC's annual financial statements, including a report presenting the fifth consecutive unqualified opinion on PBGC's general-purpose financial statements, as well as an adverse opinion on PBGC's system of internal control; and a detailed internal control report discussing PBGC's three material weaknesses and one significant deficiency (see pages 11-18).
 - Audit and evaluation reports assessing PBGC's information technology and concluding security weaknesses continue to pose serious risks (see pages 19-20).
- In addition to referring five cases for prosecution and closing six investigations, our investigative activity resulted in:
 - Initiating a partnership with Department of Labor Employee Benefits Security Administration to share information about possible wrongdoing in defined benefit pension plans and to jointly conduct investigations, and seek prosecution and financial remedies (see page 21).
 - Three Management Advisory Memoranda alerting PBGC to internal control weaknesses uncovered during investigations that identified (1) \$213,000 in

overpaid pension benefits; (2) lax controls contributed to theft of a participant's benefits; and (3) passwords for encrypted procurement documents were unknown (see pages 21-23).

Introduction

The Pension Benefit Guaranty Corporation

For more than 42 million Americans, the Pension Benefit Guaranty Corporation (PBGC or the Corporation) provides assurance that their retirement benefits will be paid, up to a statutory limit. PBGC protects the pensions of participants in certain defined benefit pension plans (i.e. plans that promise to pay definite, determinable retirement benefits). Such defined benefit pension plans may be sponsored individually or jointly by employers and unions. PBGC is now responsible for the pensions of over 1.5 million people in more than 4,600 failed plans. In its FY 2013 annual report, PBGC reported that:

- it paid \$5.5 billion to 900,000 retirees;
- it assumed responsibility for more than 57,000 additional workers and retirees in 111 failed plans; and
- it is responsible for future payments to about 620,000 participants in terminated pension plans who have not yet retired.

As of the end of FY 2013, PBGC had an investment portfolio of more than \$77.1 billion. The Corporation reports having sufficient liquidity to meet its obligations for a number of years, despite a cumulative deficit of \$36 billion from the single-employer and multiemployer programs. Neither program at present has the resources to satisfy all of the benefit obligations already incurred, much less future obligations likely to be assumed.

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

PBGC's governance structure comprises the Board of Directors, their Board Representatives, a Presidentially-appointed Director, PBGC Executives, and Congressional oversight. Other elements of governance include PBGC's system of internal control, its clearly articulated authority to act, and the policies and procedures under which PBGC operates. PBGC governance is complex and requires those who are charged with its oversight to view the Corporation from a number of differing perspectives. Oversight by the PBGC Board, PBGC management, and the OIG is critical to effective corporate governance.

PBGC paid \$5.5 billion in benefits to 900,000 retirees.

The Office of Inspector General

The PBGC Office of Inspector General (OIG) was created under the 1988 amendments to the Inspector General Act of 1978. We provide an independent and objective voice that helps the Congress, the Board of Directors, and PBGC protect the pension benefits of American workers. Like all Offices of Inspector General, the PBGC OIG is charged with providing leadership and recommending policies and activities designed to prevent and detect fraud, waste, abuse, and mismanagement; conducting and supervising independent audits and investigations; and recommending policies to promote sound economy, efficiency, and effectiveness.

Inspector General is organizationally independent.

To provide value, we focus our work on the challenges facing PBGC. We strive to target the highest risk areas and emphasize timely reporting of results. We determine what we will investigate and audit and how we will conduct those investigations and audits. We determine our own priorities and have our own independent legal counsel. Our audit and investigative staff is competent and experienced, with professional backgrounds in other Offices of Inspector General, independent accounting firms, and federal criminal investigative agencies. We independently respond to Congressional requests and initiate contact with Congress, as warranted.

The PBGC OIG is in full compliance with the *Quality Standards for Federal Offices of Inspector General*, published by the Council of Inspectors General on Integrity and Efficiency (CIGIE) updated in December 2011. Our audit work is performed in compliance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States, and our investigations are performed in compliance with *CIGIE Quality Standards for Investigations*.

The PBGC OIG is organizationally independent. The Inspector General reports directly to the highest level of PBGC governance, the PBGC Board, and to Congress. In executing our independent oversight role, we perform a range of legally-mandated work (e.g., the annual financial statement audit and the annual Federal Information Security Management Act review), as well as a body of discretionary work.

Management Challenges

For the fifth consecutive year, PBGC has received an adverse opinion on internal control in the financial statement audit, based primarily on weakness in the areas of information technology and security and the pension benefit payment process. However, these are not the only internal control weaknesses as reported in other OIG audit and investigative work. PBGC continues to have a large number of open audit recommendations given the size of the agency.

While PBGC was able to close 64 audit recommendations during the reporting period, it now needs to address 54 new recommendations as a result of evaluation and audit work issued this period. Further, investigative management advisory memoranda identified corrective actions for internal control weaknesses that had contributed to fraud and benefit overpayments. A consistent message of these reports and advisories is the poor internal control environment in several PBGC departments. Senior leadership has expressed its commitment to internal control and some departments are “control conscious;” for others, designing, implementing and monitoring controls is a significant management challenge. PBGC has made some progress in addressing weaknesses identified by OIG, as addressed below throughout the report.

Internal control is a management challenge.

PBGC Must Strengthen the Control Environment as it Remediates Deficiencies

A control environment is the control consciousness of an organization. It is the atmosphere in which people conduct their activities and carry out their responsibilities. An effective control environment is an environment where people understand their responsibilities, the limitations to their authority, and are knowledgeable, mindful and committed to doing what is right and doing it the right way. Controls are not static, but must be consistently considered as programs and operations change. PBGC has shown that it can develop and maintain a strong control environment in many areas, such as improper payment testing, privacy protection, and employee ethics. However, in other areas discussed throughout this report, the control environment remains deficient.

PBGC Made Significant Progress in Closing Audit Recommendations

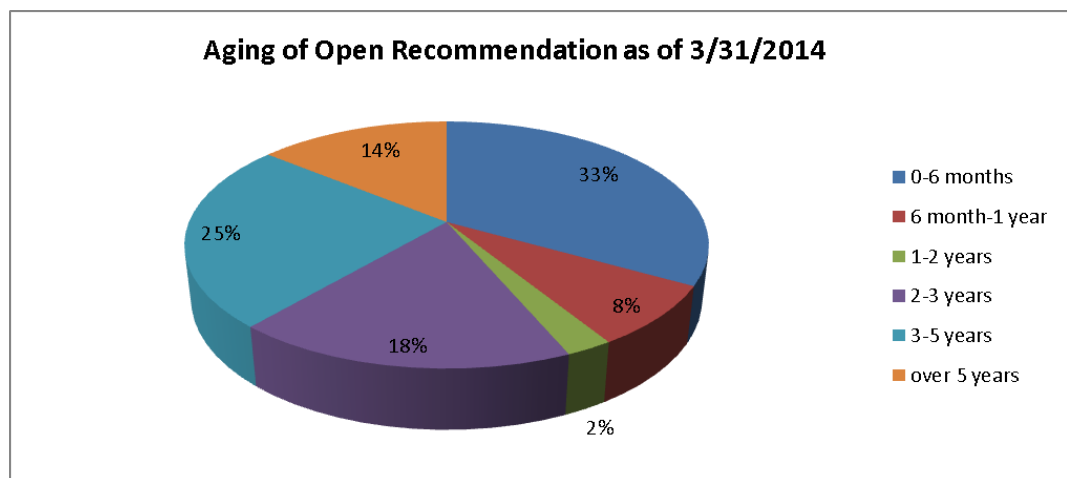
In the first part of this reporting period, October 1—December 31, 2013, OIG was able to concur in closure of 62 audit recommendations. This is an unprecedented number of closures, resulting in 118 open recommendations as of 12/31/13. As we have highlighted our concern with the large number of open audit recommendations over the past two years, it is important to

highlight the success and provide some level of detail about these 62 closed.

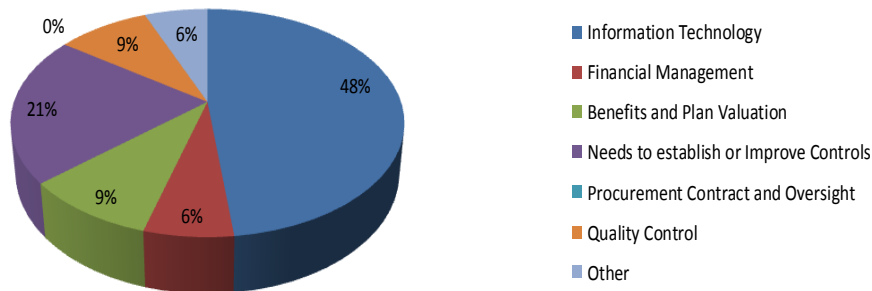
- Thirty-nine of the closed recommendations, or 63%, had been open for two or more years, with eleven that had been open for five years or more.
- The Benefits Administration and Payment Department (BAPD) closed 57% of the recommendations (35 of 62); of these, seven, related to one report issued in 2006.
- The Office of Information Technology (OIT) closed 19% (12 of 62), all of which had been opened between 3-5 years.
- The Procurement Department (PD) closed 11% (7 of 62), two of which had been opened five years or more; for the first time in many years, PD has no open audit recommendations.
- The Corporate Investment Department closed four recommendations, to complete all corrective actions relating to our 2009 Securities Lending audit report.
- Eight of the sixty-two closed recommendations related to the three Material Weaknesses in PBGC's Financial Statement Internal Control report.

We concurred in closure of 62 recommendations in 3-month period.

As PBGC continues to make progress, it will need to focus on many recommendations that have been open for quite a while. Of the 163 open at March 31, 2014, 92 or 57% have been open for two years or more, and 23 or 14% have been open longer than five years. The majority of all open recommendations remain in the area of information technology.



Themes of Open Recommendations as of 03/31/2014



About one-half of recommendations relate to IT weaknesses.

Of the 163 audit recommendations remaining open on March 31, 113 relate to the financial statement audits. We note that PBGC's corrective actions related to financial statement recommendations are reviewed annually during the audit, thus any submissions for closure will be considered during the planning and testing for they FY 2014 audit. The Corporation has already submitted 32 requests for closure (RCF's), of which 12 recommendations related to PBGC material weaknesses. At the entrance conference for this year's financial statement audit, the agency reported it intends to send another 12 closing requests for consideration during the FY 2014 audit, of which three are associated with material weaknesses.

Table 1: PBGC's Planned Progress on Material Weaknesses (FY 2014)

Material Weakness	Associated Recommendations	RCF's Submitted	RCF's to be Submitted
1 – BAPD	10	1	0
2 – Entity-Wide Security	12	0	1
3 – Access Controls & Configuration Management	25	11	2
Total:	47	12	3

Business Process Controls Are Not Institutionalized Throughout PBGC, Despite Progress

While PBGC employees are very committed to the mission of the agency, there are parts of PBGC that lack a basic understanding of the importance of internal controls for their operations. When we audit a new area, we often find that management has relied on what we would call “oral tradition.” It is typical to find no policies and procedures for business processes, a nascent understanding of controls, and limited management oversight of controls that are in place. We frequently spend time educating managers on the important discipline of:

- documenting what it does;
- identifying key control points;
- establishing critical documents;
- performing oversight activities; and
- monitoring and assessing to ensure the controls are effective.

Each of these internal control activities is essential to provide assurance that there is consistency and accountability in agency operations.

That is not to say that some PBGC leaders don’t understand controls and have implemented them, but that internal control for business processes is not a deeply-rooted organizational concept throughout PBGC. For example, in our audit of the process for monitoring, enforcing and modifying negotiated Funding Agreements (described below), we found there were few written procedures for staff work or supervisory review and inconsistent documentation of work performed. Similarly, in a prior period, we found the same absence of internal control when we reviewed PBGC’s preparation of the Exposure Report using the Pension Insurance Modeling System. And, it is not enough to draft policies and procedures - program managers must perform oversight and have other mechanisms to test the effectiveness of their controls.

We find that management generally is receptive to making improvements but some offices are quick to declare victory and remediation of deficiencies, when the action they have taken - for example, developing policies and procedures - is the first step.

Internal controls - organization, policies, and procedures - are tools to help federal managers achieve results and safeguard the integrity of their programs. They are critical mechanisms by which organizational resources are directed and performance is monitored and measured. Ultimately management is responsible for internal control. Our consistent message this period has been that department directors and managers must “own” their programs so that they are identifying missing or inadequate controls, not simply responding and correcting control deficiencies we report.

Business process controls are not understood throughout PBGC.

OIG continues to find a lack of controls, weak controls, or non-operational controls when it conducts its audits, evaluations, and investigations. OIG is not referring to past, long-standing issues, but contemporaneous results of its current and ongoing work. This is the recurring theme of all of the audits listed below—inadequate or missing controls.

Performance Audits

Increased Oversight, Internal Controls, and Performance Accountability Needed for PGBC's Monitoring, Enforcing, and Modifying Negotiated Funding Agreements

AUD-2014-8/PA-11-80 (March 21, 2014)

(<http://oig.pbgc.gov/pdfs/PA-11-80.pdf>)

PBGC's goal is to preserve pension plans and keep the onus of paying benefits in the hands of plan sponsors, rather than terminating the pension plan. In order to prevent plan termination or to mitigate losses to PBGC and plan participants in the event a plan terminates, PBGC at times works with plan sponsors to obtain protections. PBGC typically negotiates funding agreements, commonly referred to as settlements, through its Early Warning Program or through ERISA 4062 (e) events. This report contains five findings with eight recommendations, PBGC agreed with all recommendations.

PBGC's Corporate Finance and Restructuring Department (CFRD) operated its negotiated funding agreement activity without clearly defined objectives or documented operating procedures. The Corporation views each agreement as a unique negotiation and lacked a programmatic view of the activity. As a result, the Corporation operated the agreements with a variable approach which lacked consistent standards, internal controls, and meaningful evaluation of the agreements over time. CFRD did not establish internal controls to provide a reasonable assurance that the terms of the agreements had been fulfilled and that the protections for plan participants has been achieved as intended. Moreover, CFRD could not ensure that agreements were monitored, enforced and modified on a consistent and transparent basis under uniform and equitable guidelines with effective internal controls.

Internal controls within the business process are cornerstones to effective knowledge management, program operation, and management oversight. At the time we initiated our review, CFRD recently implemented a new record-keeping system, TeamConnect. The implementation was completed without adequately defining business processes and key controls upfront, which resulted in inconsistent document creation and filing. As a result of our review, in March 2013 CFRD reported they implemented new controls to ensure TeamConnect was used in a uniform manner. Implementation of new controls is a step in the right direction; however, without the commitment of management, controls can become ineffective over time. CFRD stated that a number of recommendations in this report have been resolved; we look

Negotiated Funding Agreements program lacked written procedures for staff work and supervisory review.

forward to evaluating the support and documentation indicating improved internal controls.

Ongoing Performance Audit Work

Audit of PBGC's Recruitment, Relocation, Retention, and Student Loan Repayment Programs

On March 27, 2014, we issued a draft report outlining our findings and recommendations. The objective of our audit was to assess PBGC's administration of incentive awards related to recruiting and retaining a qualified workforce, including compliance with statutes, regulations, and OPM policies and procedures and determine if PBGC's controls around these programs are in place and operating effectively.

We are awaiting the agency response. The final report will be issued in the next quarter.

Follow-on Audit of PBGC's Corrective Actions Regarding PRAD

On June 12, 2013, we began an audit to evaluate PBGC's corrective actions in response to OIG Management Advisory Report (MAR), *Ensuring the Integrity of Policy Research and Analysis Department's Actuarial Calculations*. Our audit also includes a review of PBGC's reported response to Congress as a result of the MAP-21 legislation that required PBGC to: (1) complete OIG's recommendations, including developing quality assurance policies and procedures and conducting a records management review, and (2) to submit to Congress a timetable for addressing outstanding OIG recommendations. PBGC agreed with all MAR suggested corrective actions and provided Congress with a listing of corrective actions and timetable; all of items were to be completed by June 30, 2013.

We will issue the draft report in the next quarter.

Audits of PBGC's Multiemployer Insurance Program

In 2013, we initiated a comprehensive audit survey of PBGC's multiemployer pension plan program. As a result of our survey work, we announced our intention to conduct multiple audits focused on four discrete PBGC operations related to multiemployer plans. We initiated our first such audit in March 2014, to review PBGC's process for reviewing and approving financial assistance requests. Specifically, our audit objectives are to assess the completeness and accuracy of the financial assistance documentation for the review, approval and payment process. Additionally, we will determine whether PBGC's financial assistance policies and procedures are adequate for the detection of fraud, waste and abuse by multiemployer plans.

We initiated first in series of multiemployer program audits.

A multiemployer pension plan is a plan maintained by one or more collective bargaining agreements between one or more employee organizations and to which more than one employer is required to contribute. Under ERISA, multiemployer plans are treated differently than single employer plans. For the most part, when a multiemployer plan fails or can no longer meet its benefit obligations, PBGC provides financial assistance - i.e., money to cover the cost of benefits and reasonable administrative expenses - to the plan rather than terminating it. PBGC's financial assistance to multiemployer plans continues to increase, and plan insolvencies threaten PBGC's multiemployer insurance fund. For fiscal year 2013, PBGC paid \$89 million in financial assistance to 44 plans, and the present value of estimated non-recoverable future assistance payments is over \$9 billion. In the FY 2013 audited Financial Statements, PBGC reported that the multiemployer insurance fund only had \$1.7 billion in assets. PBGC officials believe that financial assistance to multiemployer plans would likely exhaust the multiemployer insurance fund within the next 10 years.

Other audit areas include the processes for determining the contingency list (i.e., determining which plans are probable or reasonably possible of termination), partitions and mergers, and the effectiveness of the various reviews of multiemployer plans that PBGC conducts.

Financial Statement Audits: Unqualified Opinion on Financial Statements and an Adverse Opinion on Internal Controls

Unlike most Federal entities, the auditors are required to express two opinions as a result of the financial statement audit: one on the statements as a whole and one on the internal controls related to the financial statements. To express an opinion, the auditors must apply a high level of scrutiny to the agency's controls. From the inception of its audited financial statements, PBGC has always received this higher-standard opinion on internal control. For the 21st consecutive year, the auditors concluded that the financial statement audit opinion was unmodified – that is, the highest opinion – however, they also concluded that the opinion on internal control over financial reporting was adverse.

The auditors identified three material weaknesses and a significant deficiency. The existence of a material weakness is an indication that there is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by management. The material weaknesses also precluded the auditors from concluding that PBGC had effective internal controls. Because PBGC had an ineffective system of controls, it might not have been able to report accurate financial results. Because of PBGC's weak control environment, the auditors could not rely on management's control activities; they had to conduct a greater amount of substantive testing to gain

PBGC received 21st consecutive unmodified financial statement audit opinion.

PBGC has made some progress in addressing material weaknesses.

assurance that the financial information was fairly presented in all material respects. Consequently, this resulted in a change in the nature, timing and extent of their substantive procedures. However, PBGC management was able to provide sufficient evidence in response to the auditor's substantive procedures to support the amounts reported on the financial statements and the related footnotes.

PBGC has made some progress in addressing the material weaknesses that resulted in the adverse opinion, including new leadership of the Office of Information Technology (IT) and the Benefits Administration and Payment Department (BAPD) who have established specific corrective action plans and assigned resources to remediate the findings and recommendations.

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2013 and 2012 Financial Statements

AUD-2014-2 /FA-13-93-1 (November 15, 2013)

<http://oig.pbgc.gov/pdfs/FA-13-93-1.pdf>

Our audit of PBGC's Single-Employer and Multiemployer Program Funds concluded that the financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. This "clean" opinion of PBGC's financial statements means the auditors were able to conduct sufficient testing to conclude that PBGC's financial statement representation can be relied on; however, it does not mean that deficiencies and weaknesses were not found.

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. However, over a long course of years, PBGC has operated in a deficit position – i.e., its long-term liabilities to pay the pension benefits to participants in terminated pension plans exceed its assets. As of September 30, 2013:

- PBGC reported its net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of \$27.38 billion and \$8.26 billion, respectively.
- This was a decrease in the deficit for Single-Employer Program of \$1.76 billion and an increase the Multiemployer Program deficit of \$3.02 billion from the previous year's audited financial statements. While PBGC has been able to meet its short-term benefit obligations, as noted in our audit report and discussed in Note 1 to the financial statements, PBGC management believes that neither program at present has resources to fully satisfy PBGC's long-term obligations to plan participants.

As an insurer, PBGC is required to estimate the loss exposure that is reasonably possible as a result of unfunded vested benefits in not-yet-terminated pension plans. Our report explained that PBGC estimated the loss exposure that is reasonably possible for the Single-Employer and

Multiemployer Programs to be \$292.2 billion and \$36.7 billion, respectively.

The financial statements audit was conducted by CliftonLarsonAllen LLP under contract to our office. The work was performed under the OIG's general oversight.

Adverse Opinion on Internal Controls

For the fifth consecutive year, we reported that PBGC had not maintained effective internal control over financial reporting (including safeguarding assets) as of September 30, 2013. We continued to find deficiencies in the areas of security management, access controls, configuration management and segregation of duties that culminated in three material weaknesses. These material weaknesses were serious enough to result in the expression of an adverse opinion on PBGC's internal controls. Three material weaknesses were reported:

- (1) entity-wide security program planning and management;
- (2) access controls and configuration management; and
- (3) Benefits Administration and Payment Department operations.

We also reported a significant deficiency regarding the integration of financial management systems. To provide greater detail on these matters, we also issued a separate internal control report, summarized below:

Compliance with Laws and Regulations

Except for PBGC's failure to determine the fair market value of plan assets at the date of plan termination, as required by Title 29 of the Code of Federal Regulation Part 4044.41(b), our tests of PBGC compliance with selected laws and regulations did not disclose any instances of reportable non-compliance. However, because the objective of the audit was not to provide an opinion on overall compliance with laws and regulations, no such opinion was expressed.

Report on Internal Control Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2013 and 2012 Financial Statements Audit AUD-2014-3 /FA-13-93-2 (November 15, 2013)
(<http://oig.pbgc.gov/pdfs/FA-13-93-2.pdf>)

As part of the annual financial statement audit, we issued an internal control report 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 15, 2013 (AUD-2014-2/FA-13-93-1). PBGC's response to this internal control report indicated management's agreement with each of the reports recommendation and their commitment to addressing the recommendations

The adverse opinion on internal control is compressed of three material weaknesses and a significant deficiency.

contained in the report and to remediating the associated material weaknesses.

Material Weakness 1 - Benefits Administration and Payment Department Management and Oversight

BAPD manages the termination process for defined benefit plans, provides participant services (including calculation and payment of benefits) for PBGC trustee plans. BAPD continued to have control weaknesses over the processes needed to calculate and value participant's benefits and the related liabilities, as well as to value plan assets. Such weaknesses posed significant risks to PBGC's operations including inaccurate calculation of plan participants' benefits, inaccurate financial reporting, and noncompliance with prescribed laws and regulations.

Calculation of the Present Value of Future Benefits Liability

We identified errors in the calculation of participant benefits and the related Present value of Future Benefit (PVFB) liability. During our testing of the PVFB liability reported at June 30 and September 30, we noted:

- errors in valuing participant benefits and associated liability that were caused by system capability;
- limitations or programming flaws;
- archival procedures for documentation maintenance in place at the time of certain plan terminations were not adequate; and
- data entry errors and inaccurate use of plan data.

Using a statistically-based sampling technique, we observed the liability calculated for a plan participant was either overstated or understated for approximately 20% of the samples tested. The projected value of the error to the entire PVFB liability of approximately \$105 billion at September 30, 2013, had an estimated range of approximately \$728 million understatement to \$414 million overstatement and a point estimate of \$157 million overstatement.

Valuation of Plan Assets and Benefits

The fair market value of a pension plan's assets at the date a plan is terminated is an essential factor needed to determine the retirement benefit amounts owed to plan participants. BAPD's ineffective oversight of contracted reviews of asset valuations in the past continued to pose risks to the participants' benefit determinations. BAPD has undertaken significant efforts to revalue assets for certain pension plans trustee by

The quality and accuracy of PBGC actuarial calculations are still at risk.

PBGC. These efforts have not been completed and the internal control weaknesses continued to merit focus.

In FY 2013, BAPD hired a contractor to develop new plan asset valuation procedures for the newly formed Asset Evaluation Division. The contractor used these procedures to value the assets of only two terminated plans. BAPD management had not conducted an independent evaluation of the contractor's procedures to determine their sufficiency and adequacy on valuing pension plan assets. Further, BAPD had not completed the re-work of certain plan asset valuations based on its risk-based approach to determine whether participants' benefits required any adjustment.

Two IT Security Material Weaknesses

PBGC made progress in addressing IT security weaknesses at the root-cause level by establishing the foundation for effective security controls within the National Institutes of Standards and Technology (NIST) Risk Management Framework, but these controls require time to mature and show evidence of their effectiveness. PBGC information continued to remain at risk for unauthorized access, modification, and disclosure.

Material Weakness 2 – Entity-wide Security Program Planning and Management

In prior years, we reported that PBGC's entity-wide security program lacked focus and a coordinated effort to adequately resolve control deficiencies. Though progress was made, deficiencies persisted in FY 2013. The specific weaknesses included:

- Security Assessments and Authorizations (SA&As) for several major applications not completed. SA&A serves as a control to verify and validate that system security controls are properly implemented and working correctly. While a majority of SA&As have been completed, assessments for several major systems remain. This long-standing issue is critical to complete. PBGC reported that, as a result of an updated inventory registration process, it identified several additional systems that require SA&As.
- Less than one-half of security controls implemented. Using NIST SP 800-53, Recommended Security Controls for Federal Information Systems, PBGC identified 208 common security controls, 93 of which have been implemented. PBGC anticipates completing corrective actions in early 2015, however, they had not documented the details of the specific actions needed to confirm the design, implementation,

Weakness in PBGC's security program pose significant risk.

and operating effectiveness of the remaining 115 identified common security controls.

- Information security policies and procedures were not fully disseminated and implemented. PBGC was not able to effectively enforce compliance for all needed security awareness training. PBGC will be using an automated tool, the Talent Management System, to provide security awareness and role based training.

An entity-wide information security management program is the foundation of a security control structure and is a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and a continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures.

Material Weakness 3 –Access Controls and Configuration Management

Access controls remain a systemic issue.

Access controls and configuration management controls are an integral part of an effective information security management program. Access controls remain a systemic problem throughout PBGC. PBGC's past decentralized approach to system development, system deployments, and configuration management created an environment that lacks a cohesive structure in which to implement controls and best practices. Weaknesses in the IT environment contributed significantly to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring.

The audit noted FY 2013 improvements, including implementing standards and procedures, deploying automated tools and enhanced infrastructure controls to more consistently apply authentication controls; these controls now require time to mature and prove their effectiveness. We also identified eight specific weaknesses, three of which are summarized here:

- Infrastructure and configuration management. PBGC's configuration management controls are labor intensive and ineffective. Weaknesses in the design of PBGC's infrastructure and deployment strategy for systems and applications created an environment where strong technical controls and best practices cannot be effectively implemented. Configuration management controls are inconsistently implemented across PBGC's general support systems.

- Business Process Controls. PRAD uses spreadsheets to assist in determining the interest factor to calculate PBGC's liabilities for future benefits, the spreadsheets do not have adequate controls and changes can be made without appropriate audit tracking. These issues were exacerbated due to the lack of documentation within PRAD's business processes.
- Management of user, generic and dormant accounts. PBGC's policies and practices have not effectively restricted the addition of unnecessary generic accounts to systems in production. PBGC introduced automated tools in its GSS to more effectively control the dormant account process. The new automated process requires time to mature to prove its effectiveness. However, more work is needed to ensure that all unnecessary and generic accounts are removed.

Significant Deficiency: Integrated Financial Management Systems

Lack of an integrated financial management system continued to be a significant deficiency for FY 2013. The risk of inaccurate, inconsistent, and redundant data is increased because PBGC lacks a single integrated financial management system. Part of the system requires manipulation and the use of manual procedures to upload (1) plan PVFB liabilities and (2) the monthly journal entry for the premium financial activity.

PBGC continues to make progress in implementing an integrated financial system. In previous periods we reported that the Corporation had implemented automated interfaces to the consolidated financial system (CFS) for payroll, procurement, invoicing and travel functions. In FY 2013 implemented a new Trust Accounting System. In FY 2014, PBGC plans to deploy a new premium system that will also be integrated with CFS.

*Progress made in
integrating financial
management
systems.*

Audit of Pension Benefit Guaranty Corporation's Fiscal Year 2013 and 2012 Financial Statement Closing Package

AUD 2014-4/FA-13-93-3 (November 15, 2013)

(<http://oig.pbgc.gov/pdfs/FA-13-93-3.pdf>)

As part of the annual financial statements audit, we must audit the PBGC Fiscal Year 2013 and 2012 Closing Package Financial Statements that provide financial information to the U.S. Department of the Treasury (Treasury) and the Government Accountability Office (GAO) through the Government-wide Financial Reporting System for GAO's use in preparing and auditing the Financial Report of the U.S. Government. We concluded that the closing package financial statements and accompanying notes presented fairly, in all material respects, the financial position of PBGC as of September 30, 2013 and 2012, and its net costs and changes in net position for those years in conformity with accounting principles generally accepted in the United States

of America and that the presentation was consistent with Treasury requirements.

We note the Financial Statement Closing Package is not intended to be a complete presentation of PBGC's financial statements.

**Fiscal Year 2013 Financial Statements Audit Management Letter
AUD 2014-7/FA-13-93-6 (January 31, 2014; summary publicly available)
(<http://oig.pbgc.gov/summaries/FA-13-93-6.html>)**

The annual financial statements audit process led to the identification of certain less significant matters related to PBGC internal control and operations that were not included in the internal control report (AUD-2014-3 /13-93-2). The management letter summarized findings that resulted in 14 new recommendations and reported on the status of 39 recommendations that remained open from prior years' management letter recommendations.

While these management letter findings and recommendations were not material control issues and were not material in dollar value, when considered in context of PBGC's financial statements, they were nonetheless important because they are intended to improve PBGC's internal control or result in other operational improvements. The findings and new recommendations address areas such as:

*Management letter
identified additional
internal control
issues.*

- Contractor Oversight. Contracting Officer's Representative (COR) Site Visit program processes did not ensure that sufficient independent evidence was obtained to assess the Field Benefit Administrator contractor operations.
- Debts Arising from Deceased Participant Benefit Payments. PBGC did not attempt to recoup or determine to forgive payments made to deceased participants prior to processing notices of death.
- Data Entry Controls. PBGC had not reviewed underlying documentation that supports contractor assertion that its subcontractors, who had access to sensitive PBGC data, had the necessary security controls.
- Calculation of the Present Value of Future Multiemployer Assistance. The non-recoverable future financial assistance for the multiemployer program was not accurately valued because of (1) an overly optimistic assumption that 100% employer withdrawal liability payments would be collected, and (2) errors in calculating the liability of insolvent or probably insolvent plans.

In responding to the management letter, PBGC leadership agreed with the recommendations and provided planned corrective actions and estimated completion dates.

Information Technology Audits and Evaluations

In addition to the two IT material weaknesses in the financial statement audit internal control opinion, we identified other substantial information security risks. We continue to meet with the Chief Information Officer (CIO), IT senior managers, and staff responsible for correcting the problems. The CIO has developed an IT strategic plan that places IT security as the first goal, as well as an accountability matrix for addressing audit recommendations.

FY 2013 Vulnerability Assessment and Penetration Testing Report
EVAL 2014-6/ FA 13-93-5 (January 9, 2014) (summary publically available)
(<http://oig.pbgc.gov/pdfs/FA-13-93-5.pdf>)

This restricted disclosure report detailed the results of the assessment of the PBGC information security infrastructure. This review was conducted to find technical weaknesses in PBGC's computer systems that may allow employees or outsiders to cause harm to and/or impact PBGC's business processes and information. We found that PBGC's information security vulnerabilities have increased. OIG was optimistic after seeing a significant decline in the number of vulnerabilities from FY 2011 to FY 2012. Our FY 2013 findings raise concerns about the effectiveness of PBGC's patching efforts and timeliness in mitigating significant security weaknesses. This work was conducted by CliftonLarsonAllen, under contract with the OIG.

FY 2013 Federal Information Security Management Act (FISMA)
Submission to the Office of Management and Budget
LTR 2014-5/FA-13-93-4 (November 21, 2013)
(<http://oig.pbgc.gov/pdfs/FA-13-93-4.pdf>)

and

FY 2013 Federal Information Security Management Act (FISMA)
Independent Evaluation Report
EVAL-2014-9/FA-13-93-7 (March 21, 2014)
(<http://oig.pbgc.gov/pdfs/FA-13-93-7.pdf>)

The Federal Information Security Management Act (FISMA) requires IG's to conduct annual evaluation of their agency's security programs and practices and to report to Office of Management and Budget the results of their evaluations. This report was completed based on OIG's assessment of PBGC's compliance with FISMA. We reported five (5) FISMA findings:

- Information Technology Controls for the Protection of Privacy;
- Plan of Action and Milestones (POA&M);
- Incident Response;
- Application Specific General Controls; and
- Review of Interconnection Security Agreements.

*Vulnerabilities
increased since last
year.*

As a result, we issued twenty-four (24) recommendations; PBGC agreed with all recommendations.

Weak controls were identified within two key areas: PBGC's incident response program and the Pension Insurance Modeling System (PIMS) application. For these findings, we found:

- The current incident response program is inadequate and ineffective. Policies and procedures, the foundation to any internal control structure, did not provide an adequate basis for PBGC to administer an effective program. An incident involving the compromise and disclosure of sensitive PBGC documents on the internet was not adequately assessed and handled until OIG wrote a memo to the CIO.
- With respect to PIMS, the system PBGC used to project future pension models lacked key internal controls required under OMB A-130. The application was not adequately supported by the general support system, a security assessment and authorization had not been completed nor had a risk assessment.

The lacking internal controls identified in this report provide are another indication that PBGC must take concrete action in the near future to ensure data protection and reliability.

PIMs did not have needed security and risk assessments.

Ongoing IT Audit Work

Audit of Cloud Computing

Inspectors General from across the government have initiated audits to evaluate PBGC's efforts to adopt cloud-computing technologies and to review executed contracts between PBGC and cloud service providers for compliance with applicable standards. This audit is part of a Council of Inspectors General for Integrity and Efficiency (CIGIE) initiative. We plan to issue a report to PBGC; also information from our audit will be incorporated into a Government-wide report released by CIGIE.

Investigative Results

During this period, we initiated an investigative partnership with another law enforcement entity to identify potential wrongdoing by defined benefit pension plan sponsors, trustees and fiduciaries to criminally investigate and seek prosecution. An investigation concluded no wrongdoing but led to policy and procedure changes. We also issued three Management Advisory Reports to alert PBGC of internal control issues identified during the course of investigations.

Employee Benefits Security Administration Partnership Initiative

PBGC OIG and the Department of Labor, Employee Benefits Security Administration (EBSA) currently operate independently and without knowledge of the other's investigative activities or priorities. There are times when EBSA's and OIG's interest in the investigation and oversight of defined benefit (DB) plans overlap, primarily when the plan sponsor or fiduciary has engaged in financial transactions that are fiduciary breaches under the Employee Retirement Income Security Act and/or criminal violations under Title 18 of the United States Code. Because these violations may place the DB plan in potential financial difficulty, the plan may not be able to pay pension benefits when they are due and PBGC would thus incur the loss. To combat this, we proposed a partnership initiative to the Assistant Secretary of Labor for EBSA that involves EBSA and the OIG sharing information about possible wrongdoing by plan sponsors, trustees, and other fiduciaries of DB plans. This partnership will also involve the OIG and EBSA jointly conducting investigations and seeking prosecutorial and financial remedies where appropriate. We have begun identifying potential matters to investigate.

OIG and EBSA working jointly to investigate and prosecute fraud.

Accrued Military Leave Policy Established as Result of Investigation

An employee complained that the Human Resources Department (HRD) was engaged in wrongdoing because it offered eight hours of annual leave based on his military service at the time he was selected; however, he was not accruing the eight hours. Upon our inquiry, HRD stated they had erred in advising the employee of his eligibility for the increased leave accrual prior to receiving an official copy of the DD-214. After the employee was hired, HRD researched and determined that only a portion of his military service was creditable; therefore, he was not eligible to accrue the full eight hours of annual leave. HRD indicated that offering the employee eight hours of annual leave before all the necessary documentation was reviewed was premature. We concluded HRD had not engaged in wrongdoing. As a result of the investigation, HRD is developing new procedures for employees hired with military service.

Management Advisory Reports

Investigation Leads to PBGC Determining \$213,000 of Benefit Overpayments

As a result of our investigation of a complaint questioning the accuracy and consistency of PBGC benefit determinations for certain US Airways participants, PBGC determined that it had overpaid benefits of \$213,609 to

*Investigation results
in PBGC
recoupment of
\$213,000 of pension
benefits*

multiple participants. The complaint alleged PBGC had granted pension benefits to some US Airways plan participants who were still working but had denied them to others. PBGC refers to such benefits as Working Retirement pensions. Although the OIG concluded that there were no criminal violations, we identified some serious internal control issues with the procedures for working retirement eligibility determinations and for monitoring changes in work status. In February 2014, we issued a Management Advisory Memorandum to the Benefits Administration and Payment Department (BAPD) outlining our concerns and suggesting corrective action. BAPD agreed with all corrective actions and has notified all affected participants of the overpayments and recoupment procedures are underway.

Per PBGC's policy for Working Retirement, a participant must generally separate from service with the employer who sponsored their retirement plan in order to begin receiving an early retirement benefit. This also includes separating from service with any member of the plan sponsor's controlled group of companies. A review of BAPD's treatment of US Airways' four terminated pension plans (IAM, Certain Employees, Flight Attendants, and Pilots), showed that some plan participants had been erroneously approved for benefits while still employed by US Airways or a member of US Airways' controlled group.

There was considerable confusion among those processing benefit applications concerning controlled groups of companies within the airline industry; in this case, around the relationship between US Airways Group and America West Holdings. PBGC did not issue clear guidance regarding working retirements after the four US Airways plans were terminated in 2003 and 2005. As a result of our investigation, PBGC attorneys prepared a determination memorandum addressing the controlled group issues for US Airways plans. Additionally, BAPD made substantive changes to their Working Retirement procedures and PBGC Form 700, *Participant Application for Pension Benefits*, i.e., applicants:

- must state if they will be employed on their benefit start date;
- are informed they generally may not start receiving benefits until they reach their Normal Retirement Age; and
- are informed they must contact PBGC if they return to work for the employer who sponsored their plan before they reach their Normal Retirement Age.

Lax Controls Contributed to Participant's Stolen Benefits

Upon PBGC's Freedom of information Act team referral of suspected fraudulent activity in a participant's MyPBA account, our investigation determined a participant's benefit payments were stolen. The theft occurred, in part, due to a lack of internal controls, poor internal communication, and human error within PBGC. MyPBA is an electronic web-based system that

allows recipients of PBGC monthly pension benefits to set-up an on-line account and transact certain business with PBGC. We found that a relative of the participant created the participant's MyPBA account and then used the MyPBA system to change the payment destination of the participant's PBGC benefits without the knowledge or approval of the participant. This payment destination occurred four times over a four-month period as the participant contacted PBGC to change the payment destination as well.

Most concerning was the discovery that the participant had contacted PBGC advising them of the relative's actions and seeking assistance to prevent theft of their benefit payments. During our investigation, we identified multiple instances where the fraudulent activity could have been detected and stopped. We also found that there were no policies and procedures to deactivate MyPBA accounts. In addition, we identified communication breakdowns among BAPD that allowed the fraudulent activity to continue. As a result, we issued a Management Advisory with suggested improvements. In response, BAPD will do the following:

- develop policies for the deactivation of MyPBA accounts when fraud is alleged;
- develop policies for the tracking of the aforementioned requests through completion;
- conduct refresher and new hire training related to fraud on participant accounts; and
- study whether additional internal controls to address frequent changes to a participant's account is feasible given manpower and cost.

Passwords Not Transferred for Critical Encrypted Procurement Documents

While investigating alleged procurement improprieties, we identified a lack of document control and access control policies for critical procurement documents. We requested that the Procurement Department (PD) provide proposal documents for the unsuccessful offerors of the procurement matter being investigated. The documents provided were encrypted and password protected. Upon our request for the password, no PD staff had the password. In fact, the employee who encrypted the documents was no longer employed by PBGC and did not provide the password to any PBGC staff prior to departure. Our review of PD's Standard Operating Procedures did not identify any reference to password retention or file transfer procedures once an employee leaves PBGC. As a result, we issued a Management Advisory Memorandum with suggested improvements to control encrypted documents that included developing a policy covering password retention and transfer when a document owner leaves. PBGC agreed and is developing procedures for their Standard Operating Procedures.

Relative stole a participant's benefit by establishing electronic PBGC account.

Other OIG Statutory Reporting

OIG has not been denied access to any information.

Access to Information

The Inspector General Act permits the Inspector General to have unfettered access to all agency records, information, or assistance when engaged in an investigation or audit. Whenever access to requested records, information, or assistance is unreasonably refused or not provided, the Inspector General must promptly report the denial to the agency head. We have not been denied access nor has assistance been unreasonably refused during this reporting period.

Management Decisions

There were no management decisions of a material nature with which we did not agree. There were no significant revised management decisions.

Audit Peer Review Results

Government Auditing Standards require each audit organization to obtain an external review of its system of quality control every three years and make the results publicly available. In an external peer review of the PBGTC OIG's audit program for the year ending September 30, 2012, we received the peer review rating of "pass with deficiencies." The "pass with deficiencies" rating means that the external reviewer determined that our system of quality control was suitably designed and our adherence to this system provided reasonable assurance that we performed work and reported results in accordance with professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report. A copy of this peer review is found at our website: http://oig.pbgc.gov/pdfs/PBGC_Peer_Review_Report_2013.pdf.

Review of Proposed Statutory and Regulatory Changes

Under the Inspector General Act, the OIG is to review PBGC-proposed changes to laws and regulations. PBGC did not submit any statutory proposals or proposed regulations to the OIG for review this period.

Other OIG Activities

PBGC Saved Training Costs for IG Community

Again this period, PBGC provided training space to the Council of Inspectors General for Integrity and Efficiency (CIGIE) at no cost. We arranged for the OIG community to use PBGC's state-of-the-art training facilities, allowing CIGIE to conduct multiple training classes, such as the two-week "Introductory Auditor Training," "Introduction to Suspension and Debarment for Auditors, Inspectors, Evaluators, Attorneys," "Inspector General Authorities," and "Writing Solutions." More than 180 participants from 23 OIGs across the community were trained at a significant cost-savings because CIGIE did not have to rent training facilities.

CIGIE held several training classes at PBGC.

External and Internal Professional Activities

Various staff members participated in external and internal professional activities. Examples include:

- Assistant Inspector General for Audit Rashmi Bartlett serves on the Federal Audit Executive Council.
- Acting Assistant Inspector General for Investigations (AIGI) Flood is participating in the CIGIE Website Redesign Working Group. Activities undertaken included: (1) developing a Website Content Project Plan that identified specific goals and objectives to create an innovative redesign of the CIGIE website; (2) reviewing web pages from other OIGs and agencies to understand how social media impacted their web content; and (3) issuing a survey to the IG community to identify how stakeholders viewed the user ability of the current CIGIE website.
- Acting AIGI Flood assumed the role as chairman of the Data Analytics Working Group (DAWG) sponsored by the IT Committee of the CIGIE. The DAWG is challenged with identifying solutions and tools to meet the ever growing data analytics needs of OIG's. Activities undertaken included: (1) leading a working group comprised of IT professionals, auditors and criminal investigators; (2) identifying network architectural and security solutions for user access; and (3) developing a listing of data analytics tools used throughout the IG community. The working group is currently analyzing the survey data.
- Audit Manager Joseph Marchowsky serves on the Accounting and Audit Policy Committee, which is a permanent committee established by the Federal Accounting Standards Advisory Board. Federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable. The AAPC issues technical releases related to existing Federal accounting standards.

AAPC's technical releases are a form of authoritative guidance for generally accepted accounting principles for Federal entities. Mr. Marchowsky also serves as the Chair of the Agenda Committee which considers issues submitted to the AAPC and recommends to the AAPC whether to add the issue to the agenda.

- IT Audit Manager Jarvis Rodgers continued participation in the FY 2014 Inspector General Focus Group to refine and discuss the OIG Federal Information Security Management Act (FISMA) metrics. Team members across the IG community previously received a CIGIE award for participation in this very important effort and we continue to support and encourage our team to assist the broader OIG community.
- Senior Auditor Sonya Zacker participated in the CIGIE Media and Public Communications Council which serves as a collaborative space for IGs who communicate with the media and other stakeholder groups. Quarterly meetings provide networking opportunities and can involve media contacts internal and external to government, whereby participants explore ideas and best practices for communications, and ways to help increase public understanding of IG work.

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Appendix

CROSS-REFERENCE TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

The table below cross-references the reporting requirements prescribed by the Inspector General Act of 1978, as amended, to the specific pages in the report where they are addressed.

Inspector General Act Reference	Reporting Requirements	Page
Section 4(a)(2)	Review of legislation and regulations.	24
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	5-23
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	5-23
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	33-35
Section 5(a)(4)	Matters referred to prosecutorial authorities.	29
Section 5(a)(5)	Summary of instances in which information was refused.	24
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and recommendations that funds be put to better use.	31-32
Section 5(a)(7)	Summary of each particularly significant report.	5-23
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	31-32
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	31-32
Section 5(a)(10)	Summary of each audit report issued before this reporting period for which no management decision was made by end of the reporting period.	24
Section 5(a)(11)	Significant revised management decisions.	24
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	24

SUMMARY OF AUDIT AND INVESTIGATIVE ACTIVITIES

For the Six-Month Periods Ending October 1, 2013 through March 31, 2014

Audits/Evaluations Issued

Number of Reports	9
Number of Recommendations	54

Management Decisions

Open Recommendations Beginning of Period	172
Opened This Period	55*
Closed This Period	64
Open Recommendations End of Period	163
Reports with Open Recommendations End of Period	28

Investigations

Pending Beginning of Period	14
Opened	2
Closed	6
Pending End of Period	10

Complaints¹

Pending Beginning of Period	23
Opened	46
Closed	39
Pending End of Period	30

Financial Recoveries²

Theft of Funds Recovered	0
Court Ordered Fines, Penalties, and Restitution	\$1,400
U.S. Government Property Recovered	0
Recovery of Funds	\$213,609

Criminal Actions²

Arrests	0
Indictments	0
Convictions	0

Administrative Actions²

Referrals

For Prosecution:	
Department of Justice	4
Various States' Attorney Offices	1
Declined	4

For Other Action:

PBGC Management for Corrective Action

5

* A previously issued recommendation classified as unresolved was resolved during the period.

¹Complaints include allegations received through the hotline operation and issues resulting from proactive investigative efforts.

²Results reported for Financial Recoveries, Criminal, and Administrative Actions include both open and closed cases.

RESULTS OF REPORTS ISSUED

For the Six-Month Period Ending March 31, 2014

	Number Of Reports	Questioned Costs	Unsupported Costs	Funds Put to Better use
A. For which no management decision had been made by the commencement of the reporting period.	1	\$0	\$0	\$0
B. Which were issued during the reporting period.	9			
PBGC Lawfully Terminated the National Steel Plans, but Accepted Poor Quality Work from Contractors (10/23/2013)		\$0	\$0	\$0
Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2013 and 2012 Financial Statements (11/15/2013)		\$0	\$0	\$0
Report of Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2013 and 2014 Financial Statements Audit (11/15/2013)		\$0	\$0	\$0
Audit of the Pension Benefit Guaranty Corporation's Financial Statement Closing Package for Fiscal Year 2013 and FY 2014 (11/15/2013)		\$0	\$0	\$0
FY 2013 Federal Information Security Management Act Submission to the Office of Management and Budget (11/21/14)		\$0	\$0	\$0
Fiscal Year 2013 Vulnerability Assessment and Penetration Testing Report (1/9/2014)		\$0	\$0	\$0
Fiscal Year 2013 Financial Statement Audit Management Letter Report (1/31/2014)		\$0	\$0	\$0

RESULTS OF REPORTS ISSUED

For the Six-Month Period Ending March 31, 2014

	Number Of Reports	Questioned Costs	Unsupported Costs	Funds Put to Better use
Increased Oversight, Internal Controls and Performance Accountability Needed for PBGC's Monitoring, Enforcing and Modifying Negotiated Funding Agree- ments (3/21/2014)		\$0	\$0	\$0
Fiscal Year 2013 Federal Information Security Management Act Final Report (3/21/2014)		\$0	\$0	\$0
Total (Add A. & B.)	10	\$0	\$0	\$0
C. For which a management decision was made during the reporting period.	8	\$0	\$0	
(i) dollar value of disallowed costs		\$0	\$0	
(ii) dollar value of costs not disallowed		\$0	\$0	
D. For which no management decision had been made by the end of the reporting period.	1	\$0	\$0	
E. For which no management decision was made within six months of issuance.	0	\$0	\$0	

**PREVIOUSLY REPORTED SIGNIFICANT RECOMMENDATIONS
FOR WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED**

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
96-4/23093-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 1995 Financial Statements 03/13/1996 and AUD-2008-2/ FA-09-0034-2 Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007	1	Integrating Financial Management Systems	PBGC needs to complete the integration of its financial management systems.
2003-3/23168-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2002 - 2001 Financial Statements 01/30/2003 and AUD-2008-2/ FA-09-0034-2 Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007	1	Entity-Wide Information Security Program Planning & Management	PBGC needs to complete its efforts to fully implement and enforce an effective information security program.
2003-10/23177-2 Review of PBGC's Premium Accounting System 10/10/2003	4	Control weaknesses undermine the quality and integrity of reported premium revenues.	PBGC needs to ensure that its automated system produces accurate and verifiable premium accounting data.

**PREVIOUSLY REPORTED SIGNIFICANT RECOMMENDATIONS
FOR WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED**

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
2008-1/FA-0034-1 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2007 - 2006 Financial Statements 11/15/2007 and AUD-2008-2/ FA-09-0034-2 Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007	8	Access Controls	PBGC needs to mitigate the systemic issues related to information access controls.
AUD-2009-01/FA-08-49-1 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2008 and 2007 Financial Statements 11/13/2008 and AUD-2009-02/FA-08-49-2 Limited Disclosure Report on Internal Controls – PBGC's FY 2008 and 2007 Financial Statements 11/13/2008	4	Entity-Wide Information Security Program & Planning Management	PBGC needs to complete the design, implementation and testing of security controls, implement an effective certification and review process, and correct identified access control vulnerabilities.
AUD-2010-09/IT-09-67 PBGC Needs to Improve Controls to Better Protect Participant Personally Identifiable Information (PII) 09/16/2010	2	System control weaknesses placed PII of approximately 1 million participants at risk.	PBGC needs to strengthen security controls and complete a certification and accreditation review of the system housing the PII.

**PREVIOUSLY REPORTED SIGNIFICANT RECOMMENDATIONS
FOR WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED**

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
AUD-2010-08/IT-09-67 Authorization to Operate PBGC Information Systems 08/18/2010	3	Information technology general support systems and major applications without ATOs required by OMB.	PBGC should develop a comprehensive plan to remediate identified vulnerabilities.
EVAL-2012-5/PA-10-72 PBGC Processing of Terminated United Airlines Pension Plans was Seriously Deficient 11/30/2011	8	Systemic errors and omissions in audits of terminated pension plans	PBGC needs to strengthen the post-trusteeship audit process.

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

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/investigations/details.html>

Or Write:

Pension Benefit Guaranty Corporation

Office of Inspector General

PO Box 34177

Washington, DC 20043-4177

