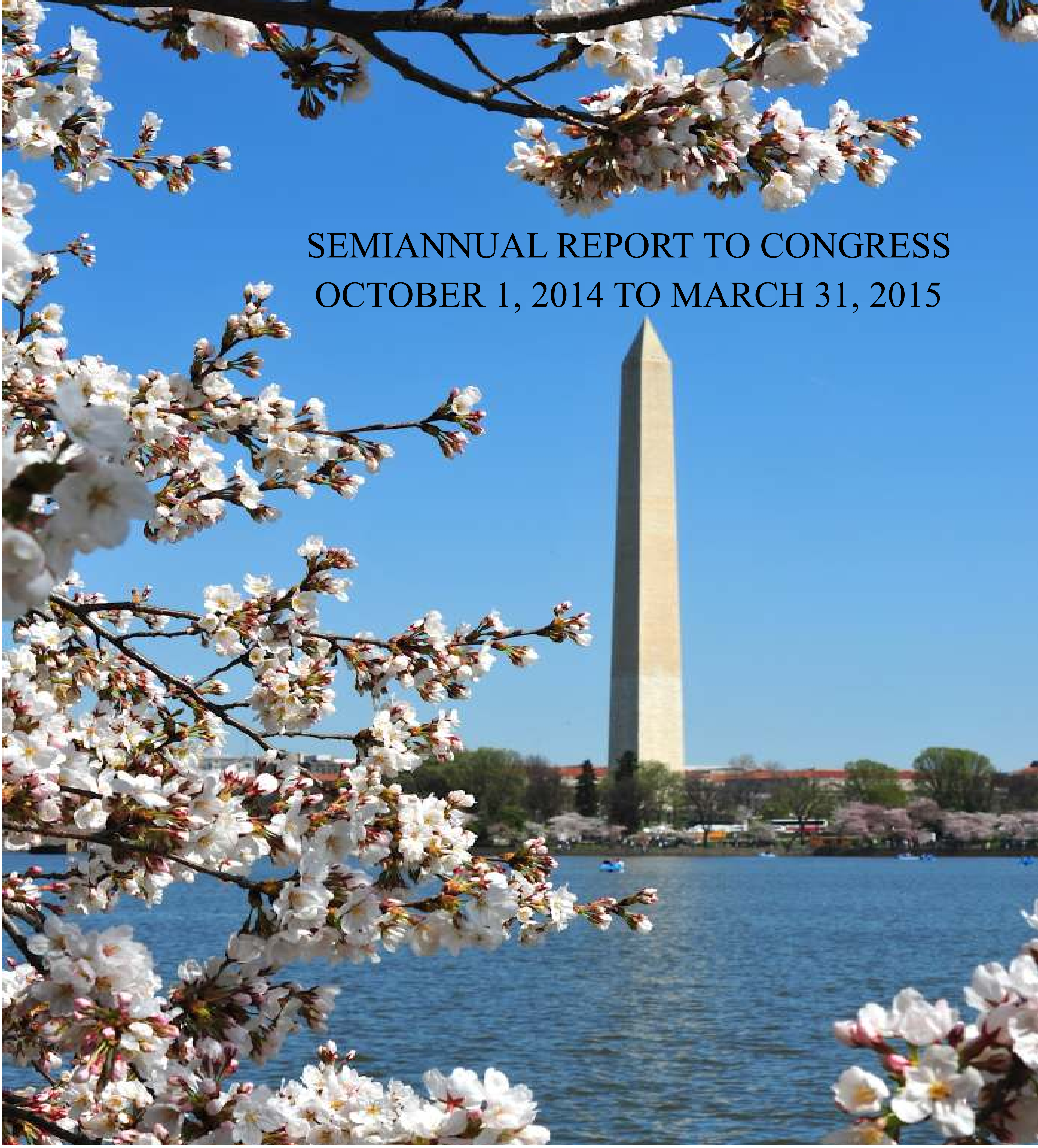
SEMIANNUAL REPORT TO CONGRESS
OCTOBER 1, 2014 TO MARCH 31, 2015



Pension Benefit Guaranty Corporation
Office of Inspector General

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

April 30, 2015

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, 2014 – March 31, 2015. During this period, we issued seven audits and evaluation reports and one Management Alert with 76 recommendations for improvement. I engaged personally with PBGC Executives concerning the overall internal control environment and specific reports in their areas.

PBGC Audit Recommendations Surge Again. For the past three years we have raised with the Board and in our report to Congress our concern with the high number of open audit recommendations. Although PBGC has made progress – in the most recent 18-month period, OIG concurred in closure of 124 recommendations, during that same time, we issued 141 new recommendations, with a record number of new recommendations (41) in the FY 2014 financial statement audit internal control report. As of March 31, 2015, there were 187 audit recommendations open; 151 of these relate to financial statement audit findings, including those in our Federal Information Security Management Act (FISMA) and Vulnerability Assessment reports.

PBGC Received its 22nd Consecutive Unmodified Financial Statement Audit Opinion and 6th Consecutive Adverse Opinion on Internal Control. PBGC is rightfully proud of its unmodified financial statement audit opinion. However, because of the poor internal 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. The adverse opinion on internal control reflects the persistent challenge that the Agency faces in creating a culture of internal control consciousness— not just an understanding of controls, but also ownership and accountability for implementation of effective controls.

Two New Significant Deficiencies Reported. Although we closed the Significant Deficiency related to the integration of the financial systems, two new Significant Deficiencies were identified in: (1) financial reporting, and (2) the calculation of the Present Value of Non-Recoverable Future Financial Assistance (PVNFFA) liability.

Significant New Work Announced to Review PBGC Governance of Internal Control. As a result of the risks outlined above, we initiated an audit 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.

Congressional Requests Increased. During the reporting period, the Federal Inspector General Community has received a number of requests from Congress for data about open audit recommendations, summaries of work (whether audit, evaluation or investigation) that was not publicly-available, cooperation with the OIG and access to information. I appreciate my management team's efforts and dedication to responding to Congress in a timely manner while concurrently focusing on the important audit and investigative work that is detailed in this report.

At issuance of this report, I am privileged to have served for more than a year and a half as Acting Inspector General for PBGC. While I have been honored to serve as Deputy Inspector General for 22 years, I am particularly grateful to have had the opportunity to lead this office during a period of extraordinary achievements. Significant accomplishments during my leadership as Acting Inspector General included meeting the stringent requirements for the authorization of full law enforcement powers for our Special Agents. Our emphasis on essential internal control vulnerabilities at PBGC identified significant, long-standing internal control issues and engaged Congress, the Board, and leaders throughout PBGC. As a result of our focus on establishing and maintaining sustainable internal controls, we issued 20 audit and evaluation reports with 141 new recommendations for improvements. Bringing these issues to the forefront is resulting in positive changes that substantially reinforce the foundation for the public's confidence in PBGC's operations and decision-making.

Finally, the Board of Directors recently selected Robert A. Westbrooks to serve as PBGC's next Inspector General. We welcome him to our office and look forward to continuing the important work we do to inform the Agency, Congress, and the public on the effectiveness and efficiency of PBGC's programs and operations.

It has been an honor and privilege to serve as Acting Inspector General for the last 19 months.

Deborah Stover-Springer

Respectfully submitted,

Deborah Stover-Springer
Deputy Inspector General

Table of Contents

Executive Summary

This Semiannual Report to Congress summarizes the activities and accomplishments of the Pension Benefit Guaranty Corporation (PBGC) Office of Inspector General (OIG) from October 1, 2014 through March 31, 2015.

- The overarching issue of internal control management is the theme for most of our findings and recommendations. From our work, we continue to assess that PBGC's greatest Management Challenges are in these five major arenas:
  - Management of the benefits administration and payment program;
  - Information technology (IT) security program;
  - Access controls, configuration management and incident response;
  - Broad organizational understanding of internal controls to manage Agency operations; and
  - Remediation of a significant number of audit recommendations in a changing environment.

- PBGC took specific actions to set a new tone for internal control at PBGC. The Acting Director spoke frequently to senior leaders about the importance of controls across the organization and that it was management's responsibility. The Chief Financial Officer developed several topic-specific mandatory training sessions to address internal control issues. The Office of Information Technology (OIT) and the Benefits Administration and Payment Department (BAPD) are engaging in best practices to positively impact their control environments. We are hopeful that PBGC's recent leadership control emphasis will change the environment (see pages 5-13).

- IT is focusing on the Material Weakness remediation and security. However, passage of time for corrective action causes additional risk. More than 50% of the open recommendations have been open for two years or longer. There are 23 IT-related recommendations that have been open five years or more. Mitigating controls are needed in the interim for those weaknesses for which corrective actions will be delayed (see pages 10-12).

- We issued an evaluation report that reviewed the effectiveness of corrective actions PBGC took to address serious internal control deficiencies within the Policy, Research and Analysis Department. We concluded that much work had been done to establish policies and procedures and document supervisory review; those actions were incomplete and not mature. There are nine recommendations for improvement (see pages 14-15).

- As the result of our financial statement audit and related reports, we issued six reports with 76 new audit recommendations. While PBGC received its 22nd unmodified ("clean") opinion on the audit of its financial statements, it also received its sixth adverse opinion on internal control with a continuation of the three Material Weaknesses, the closure of a prior Significant Deficiency, and the addition of two new Significant Deficiencies. The Internal Control Report contained 41 new recommendations. As of March 31, there were 187 open recommendations; 151 relate to the financial statement and associated reports (see pages17 -24).

- We continued to have regular communications with Congress, including meetings with staff of Senate and House oversight committees and responded to multiple Congressional requests (see pages 26-27).

In Investigations, we:

- Engaged in Fraud Detection and prevention activities, including:
    - Continued an Intuitive Data Exchange Analytics Project to examine multiemployer data and identify investigative leads.
    - Entered into a forensic and technical resources strategic partnership with another OIG.
    - Issued two Fraud Awareness Alerts to educate pension plan participants, PBGC staff and the general public to the existence of various fraud schemes and how to protect themselves (see pages 27-30).
- Received full law enforcement authority when our criminal investigators were sworn-in as Special U.S. Deputy Marshals on December 9, 2014 (see pages 30-31).

Introduction

The Pension Benefit Guaranty Corporation

For more than 41 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 nearly 4,700 failed plans. In its FY 2014 annual report, PBGC reported that:

- it paid $5.5 billion to 813,000 retirees;
- it assumed responsibility for more than 53,000 additional workers and retirees in 97 failed plans; and
- it is responsible for future payments to about 595,000 participants in terminated pension plans who have not yet retired.

As of the end of FY 2014, PBGC had an investment portfolio of more than $81.5 billion. The Corporation reports having sufficient liquidity to meet its obligations for a number of years, despite a cumulative deficit of about $62 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.

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.

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 audit and investigate and how we will conduct that work. We determine our own priorities and have our own independent legal counsel. Our audit and investigative staff is competent and experienced, with professional backgrounds stemming from 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

OIG has identified five management challenges, each of which has been previously reported and continue, in large part, due to deficiencies in the control environment at PBGC:

- Management of the benefits administration and payment program;
- Information technology security program;
- Access controls, configuration management and incident response;
- Broad organizational understanding of internal controls to manage Agency programs; and
- Remediation of a significant number of audit recommendations in a changing environment.

The first three challenges are Material Weaknesses reported in an adverse opinion on internal control in the financial statement audit for a sixth consecutive year. While PBGC continues its efforts to address these issues and is making incremental progress, the heavy lifting to fully remediate is still to be done. PBGC has corrective action plans to address these Material Weaknesses, many of which are not scheduled for completion until 2016-2017.

During this six-month period, PBGC focused on addressing the fourth management challenge: broad organizational understanding of internal controls to manage Agency programs. The Acting Inspector General engaged with each of PBGC's Executives about effective controls and PBGC embarked on specific actions. For example, the then-Acting Director has communicated frequently to senior leaders about the importance of controls, emphasizing that control consciousness is not just for areas related to the financial statement audit. She sought opportunities to share with staff the message that without an effective internal control environment it is difficult for PBGC to operate efficiently and in a reliable manner. Further, the Chief Financial Officer sponsored mandatory training for all supervisors and managers on government-wide control requirements and other training for targeted individuals who must take corrective action on audit recommendations and submit evidence to support closure to OIG.

This new emphasis on internal control will not result in an immediate transformation. It will take time for PBGC to develop a mature control environment. Some programs already have a control structure. So they will be focusing on continuously monitoring and testing their controls for effectiveness and timely developing and implementing effective corrective actions to audit findings. Other programs have few controls and will be starting at the rudimentary control-level with establishing and documenting policies and procedures including required documentation of decisions, supervisory oversight, and Federal records standards.

PBGC Corrective Action Progress Offset by Continued Identification of Significant New Audit Recommendations

In previous reports to Congress, we noted the pervasive weakness in the Corporation's control environment and the extended time required to mitigate associated vulnerabilities. We recognize that senior PBGC management has placed increased emphasized on controls over the past six months (see page 5) and significant resources have been dedicated to close audit recommendations. PBGC has taken positive action to change the future internal control environment that we note throughout this report, including:

- Improvement in the culture surrounding vulnerability management. Scans of PBGC IT systems show a decrease in the number of information security critical and high vulnerabilities. Patch management has achieved the highest level of maturity in the Corporation's history.
- The deployment of a new system to account for premiums and the associated interfaces with PBGC's consolidated financial system enabled us to close the long-standing Significant Deficiency regarding financial statement integration.
- Improved access controls over an IT system housing personally identifiable information.

While the Corporation continues to make some progress, it has been more than offset by the identification of new audit recommendations. Overall, the number of recommendations associated with the material weaknesses, as well as recommendations related to general PBGC operations, have significantly increased – from 138 in last reporting period to 187 at March 31. With a report issued after the reporting period, there are now more than 200 open audit recommendations. This is daunting. As this pattern continues, there is a risk of burn out and "issue fatigue," both of which make it difficult for the Agency to be more proactive in preventing and detecting issues on its own rather than issues being the focus of attention once they become an audit finding.

PBGC's high number of audit recommendations has persisted over many years across all of our audits - financial, information technology and performance.

Semiannual Reporting	Number of Open
3/31/11	205
9/30/11	160
3/31/12	195
9/30/12	183
3/31/13	158
9/30/13	172
3/31/14	163
9/30/14	138
3/31/15	187

This is not the first time we have raised this concern. The theme of our semiannual report covering the 18-month period from April 1, 2012-September 30, 2013, was the large number and predictable flux of open recommendations and PBGC's lack of progress in successful corrective action. In the following 18-month period (October 1, 2013-March 31, 2015), PBGC's efforts resulted in the OIG closing 126 recommendations—a significant achievement. Yet, during this same period, we issued 20 reports with 141 new recommendations, relating to new and recurring issues. This reflects the overall systemic weaknesses of PBGC's control environment.

Opened and Closed Audit Recommendations: October 1, 2013 – March 31, 2015

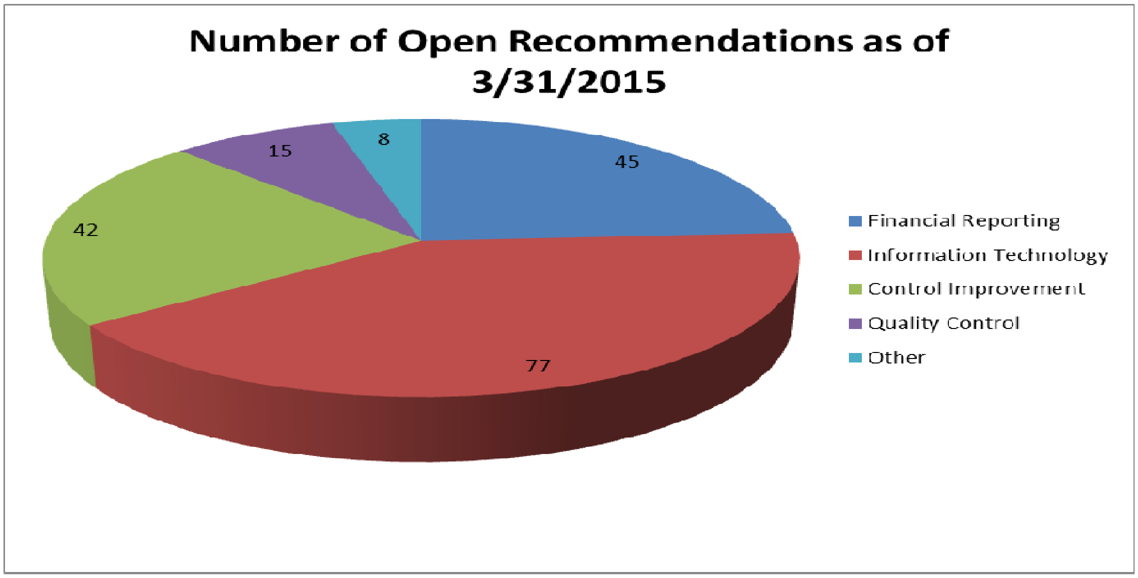
	10/1/2013 to 3/31/2014	4/1/2014 To 9/30/2014	10/1/2014 to 3/31/2015	TOTAL
Beginning	172	163	138	172
New	55	10	76	141
Closed	64	35	27	126
End	163	138	187	187

Until PBGC can manage its operations so they truly embed internal controls accountability in the fabric of the organization's business processes, procedures, and culture, the number and significance of recommendations will not be permanently reduced. Essentially, controls have to become part of everyone's job in such a way that they are not considered an add-on or a collateral responsibility, but an inherent part of how to perform a role. If controls are not institutionalized into the Corporation's culture, auditors will identify repeat findings and new findings in the same areas, despite management's best efforts.

For such a small agency, PBGC has an enormous number of open audit recommendations. This is due to a combination of factors:

- First, as we have consistently reported, as a Federal entity, PBGC is behind in its understanding of controls and establishing a control foundation within all parts of the organization. PBGC senior leaders are taking this seriously, expressing frequently that controls are part of managers' core responsibilities and conducting training to deepen managers' control consciousness. The next step is ownership and accountability. That is, formal responsibility and the successful performance of controls must be institutionalized – in performance plans and bonus criteria, for example. After the close of the period but before we issued this report, PBGC announced a new internal control-specific performance standard for all supervisors and leaders. We applaud this leadership reinforcement of accountability for internal control.
- Second, technological change is on an exponential curve; changes that may have taken decades in the past now occur in just a few years. Corrective actions planned several years ago are likely obsolete. Resolution of long-standing recommendations may indeed be a Pyrrhic victory if time is not devoted to thinking about and planning for the critical work ahead.
- Third, open, transparent government is here to stay. Agencies and the OIG community have and are likely to continue to receive requests for information from Congress and the public that require demonstration that policies and procedures are in place, followed, and decisions documented. When we respond to Congressional requests, we often find places in the Agency where there is no documentation to support decisions. While we often go an extra step to interview stakeholders, dig deeper and to give the Agency what credit we can, as the volume of requests to our office increases, this may not be possible. As we have adopted with our formal audits, we will have a reasonable timeframe for response to our requests and then we will have to cease inquiry and report that information could not be obtained.
- Finally, we remain concerned about PBGC's significant reliance on contractors for internal control knowledge and key responsibility within the organization. The Agency has utilized contractors in a consulting and staff augmentation capacity for years to assist in remediating controls. Results have been mixed and many of the same contractors are being leveraged for new initiatives. This is concerning; in our experience, little knowledge has been transferred to PBGC, leaving the Agency with limited ability to find and resolve its own issues proactively rather than waiting for OIG or another entity to discover them.

Status of Audit Recommendations



In this reporting period, OIG concurred in the closure of 27 audit recommendations. This progress was offset by the issuance of 76 new recommendations resulting in 187 open recommendations as of March 31, 2015. Of the new recommendations, 40 related to Material Weaknesses and newly identified Significant Deficiencies in the financial statement audit.

Fifty-six of PBGC's audit recommendations (30%) have been open for two years or more; 29 of these, or more than 50%, relate to IT findings. Of those 29 IT recommendations, 23 have been open for five years or more. Various other PBGC departments have 11 recommendations that have been open for five years or more. The age of these recommendations presents particular corrective action challenges in IT, an area of constant evolution.

Recommendations Dealing with Material Weaknesses

At the beginning of the period, we had 40 recommendations related to the three internal control Material Weaknesses of BAPD operations, entity-wide IT security posture and access/configuration management. Fourteen new recommendations were added in the areas of BAPD operations and access/configuration management, for a total of 54. The Agency submitted closure packages for 16 of the older recommendations, yet we only agreed to close eight of the 16 recommendations PBGC management had certified as completed.

Status of Material Weakness Recommendations as of 3/31/2015					
Material Weakness	Number Open as of 10/1/2014	Issued During Period	Agency Submitted for Closure	OIG Con-curred with Closure	Number Open as of 3/31/2015
1-BAPD Management	9	7	2	2	14
2-Entity-Wide Security	11	0	1	1	10
3-Access Controls & Con-figuration Management	20	7	13	5	22
Total	40	14	16	8	46

Newly Identified Significant Deficiencies

Concurrent with the closure of the integrated financial system Significant Deficiency, we reported two new Significant Deficiencies. These deficiencies involve financial reporting and the calculation of the present value of nonrecoverable future financial assistance liability of the multiemployer program.

Financial reporting involves the preparation of accurate and timely financial statements. We found certain controls regarding premium revenue records, manual journal entries and monitoring the valuation of non-commingled assets were missing. The present value of nonrecoverable future assistance liability relates to the multiemployer program. The liability calculation lacked a robust quality control process to verify inputs. We made 24 recommendations regarding financial reporting and 10 for the nonrecoverable future assistance liability.

These deficiencies are discussed in more detail in the Financial Statement Audits section of this report (see pages 17-23).

PBGC Is Focusing on the IT Management Challenges

Like many Federal agencies, PBGC has struggled to establish a coherent IT environment that develops new systems under an enterprise architecture with appropriately strong security. It has many legacy systems that have weak access controls and configuration management that result in two Material Weaknesses in the annual financial statement audit. These will persist until PBGC can either effectuate mitigating controls for the legacy systems or develop new replacement systems.

Though we issued reports this period that resulted in 22 new IT recommendations (including seven that were re-classified from the FY 2013 FISMA report to Material Weakness 3 in the FY 2014 Internal Control Report), the OIG is encouraged by the engagement between our office and OIT. This includes regular dialogue between OIG and OIT leaders and managers, their demonstrated commitment to identifying and correcting the root causes, and establishing partnerships with the departments who need to develop or enhance systems to support the business.

IT Security Is Improving

Under the leadership of the new Chief Information Security Officer, PBGC is demonstrating a more effective IT security posture. In addition to hiring staff with IT security technical expertise, PBGC has also implemented new technologies to address IT weaknesses. One such tool is the Cyber Security Assessment and Management (CSAM) web solution to better manage the Agency's Plan of Action and Milestones which will serve as a reliable tool for continuous monitoring.

In the past few years, OIT has also made significant progress in some fundamental IT controls:

- After years of audit findings and recommendations related to PBGC's ineffective scanning or mitigating known network vulnerabilities, PBGC now has an integrated team of IT professionals that scans their networks and maintains a regular patch management process that continues to evolve. This team meets with OIG quarterly to discuss their own findings and corrective actions, as well as progress to address OIG recommendations. Our recent vulnerability assessment showed reduced critical and high vulnerabilities and the team demonstrated awareness of the issues.
- PBGC is in the process of revamping its Incident Response program. The Agency has hired new Federal personnel and demonstrated an improved interest in ensuring incidents are categorized, handled and communicated effectively. With the current threat landscape, this is one of OIT's greatest challenges.

Despite the progress IT has made, OIG remains concerned about the pace of PBGC's corrective actions. Many of OIG's IT recommendations resulted from an IT program that was in disarray. Twenty-three of our current open IT recommendations resulted from the serious weaknesses that existed from 2009-2011. With 77 IT audit recommendations, resources must be assigned to address longstanding and persistent weaknesses. There is risk of PBGC falling behind with rapidly emerging technologies and a constantly changing threat environment . Its progress may not be enough to offset the perpetual lag and may expose the Corporation to potentially sophisticated, disruptive cybersecurity attacks.

Moving to the Cloud Creates New Risks

PBGC is in the process of moving Agency resources to cloud environments. We have held numerous meetings with PBGC expressing our concerns surrounding appropriate contract language in cloud computing contracts. PBGC must ensure that future contracts have appropriate provisions in place that ensure the Agency and OIG maintain adequate access to the Corporation's data. Moreover, we cautioned PBGC against complete reliance on FEDRamp (Federal Risk and Authorization Management Program) and the cloud providers' security controls. We also alerted management to security concerns with a planned Agency-wide roll-out of a commercially-available IT repository to store, organize, share and access information amongst PBGC Departments.

New technologies present different and at times unforeseen risk; the Agency must ensure the Corporation's interests are adequately protected. For example, after the recent attack at health insurer Anthem, the Office of Personnel Management Office of Inspector General continued to find itself unable to have audit access to this important federal service provider. PBGC must take steps to ensure that service providers are required to provide access to PBGC and the OIG so appropriate monitoring and oversight can occur.

We acknowledge the resources PBGC has dedicated to correcting the two IT Material Weaknesses. However, the Agency must also focus on innovative cloud technologies that present new risks in an evolving IT arena. Working on long-standing problems while staying current will be a difficult challenge for PBGC going forward.

Benefits Administration and Payment Department Corrected Deficiencies

In our new financial statement audit contract we have established a 90-day review period (January-March) to review Recommendation Completion Forms (RCFs) that PBGC submitted after the audit's June 30 cut-off date. In the past, late-submitted RCFs waited for review until the next financial audit cycle. RCFs are Agency submissions that certify responsible officials have taken appropriate corrective action to respond to the finding and recommendation, they have tested to ensure the new action is operating as designed, and attached documentation supports those actions. PBGC submitted 24 RCFs after the June 30 deadline, of which the Office of Information Technology

(OIT) submitted 14 and the Benefits Administration and Payment Department (BAPD) submitted 10. We did not close any OIT recommendations, however, we concurred in closure of nine of BAPD's RCFs, that included two related to their Material Weakness.

Model Practices Emerging in OIT and BAPD to Address Management Challenges

We are pleased to report that the two areas in which PBGC has Material Weaknesses—BAPD and OIT—are implementing best practices for maintaining effective OIG relationships and positively impacting the internal control environment. Both of these departments have regularly scheduled meetings with OIG to provide updates on corrective action progress on their open recommendations. OIT also schedules *ad hoc* meetings with us to outline issues they have identified, how they are addressing them, and to engage us in robust, collaborative dialog. OIT leaders have specifically spoken to us about the importance of connecting policy and governance to compliance and oversight through workforce training and change management. We believe such a model that imbeds accountability, ownership and continuous monitoring is a meaningful step that will build a stronger control environment.

BAPD has, for the past three years, conducted mandatory training annually for all of its actuaries on the results of the financial statement audit and related reports. The early training focused on the basic concepts of internal control, proper documentation and evidence of effective controls and corrective actions. The training was expanded to BAPD management, auditors, and benefit administrators and tailored to the audience to provide discipline-specific information on the results of the audits, the audit cycle, and internal control awareness. BAPD management told us they focus on root cause of issues and how to prevent similar findings in the future. This year, BAPD also trained actuarial contractors and stated the goal of the FY 2015 training was to "increase awareness of the internal control environment and promote a sense of ownership of internal controls." At BAPD's invitation, OIG leaders spoke at BAPD's 2015 training session and a department-wide Town Hall to encourage these efforts which have the potential to be transformational. The new Chief of Benefits Administration reported that BAPD staff responded favorably and were encouraged by our messages.

OIG Work Focuses on Management Challenges

OIG continues to devote its resources to audit and investigative work that addresses PBGC's performance and management challenges. We monitor the actions that the Agency has taken to address OIG findings and pervasive internal control issues that have resulted in a sixth year of an adverse opinion on internal control at PBGC.

Performance Audits

PBGC Compliance with MAP-21 Still a Work in Progress, AUD-2015-05/PA-13-98 (January 30, 2015)
http://oig.pbgc.gov/pdfs/PA-13-98.pdf

As directed in MAP-21 legislation, PBGC provided Congress a timeline to address OIG recommended actions in a Management Advisory Report (MAR), *Ensuring the Integrity of Policy Research and Analysis Department's Actuarial Calculations,* issued in FY 2012. The MAR had identified serious internal control deficiencies – the Policy, Research and Analysis Department (PRAD) lacked a quality review process for preparing its reports, and PRAD staff did not ensure that they retained vital documentation to support the calculations performed for their reports. Consequently, PBGC issued its FY 2010 Annual Exposure Report with unsupported and incorrect information. In our current audit, we assessed PBGC's corrective actions taken in response to the MAR and reported to Congress, and evaluated how PBGC captures, maintains, and disposes of federal records associated with PRAD's business process for actuarial reporting.

Our audit report contained five findings with eight corrective actions. Though PBGC had agreed with all MAR suggested corrective actions, we concluded that PBGC completed only two of eight necessary actions by the deadline it established and reported to Congress: June 30, 2013. However, we reported progress made and gave credit for corrective actions taken during the course of our audit work. For example, PRAD established policies and procedures where none existed previously and issued them in a Quality Assurance Procedures Manual, began documenting contractor oversight, and also took important steps to improve its records management activities.

Most significant of the findings, PBGC had not completed a strategic review of its program and business processes. In turn, this adversely affected response to other actions recommended and resulted in an inadequate records management review and incomplete quality procedures manual. We also determined that PRAD did not properly assess and implement access controls over its actuarial information. And, we remain concerned that PBGC officials have set a precedent in their decision not to issue the statutorily-required FY 2011 Exposure Report, given it is unclear if either the Agency or the Board has the authority to waive the requirement. Overall, we attributed most of the conditions found to PRAD's understaffing and intermittent gaps in management during its response to the MAR.

PBGC was generally responsive, but disagreed with two of nine recommendations in our report. PBGC officials cited their commitment to open engagement with their Board and Board staff, but did not believe it is necessary to develop a new, separate communications policy covering the issuance of statutorily-required reports. We have urged PBGC to reconsider its position and address explicitly situations involving statutorily-required reports. After the close of the period, but before this report was issued, OIG and PBGC reached agreement on management decision.

Regarding our recommendation to implement access controls over its actuarial information, Agency officials intend to "survey like organizations to determine best practices," and then determine if they need to make any necessary changes to PRAD's systems and policies. We noted this was not responsive to our recommendation; Agency officials must be mindful of their responsibilities to execute NIST and OMB guidance in limiting access to information. This remained unresolved at reporting time.

Ongoing Performance Audits

Audit of PBGC's Multiemployer Insurance Program—Financial Assistance

PBGC safeguards the retirement income of about 10 million workers and retirees in about 1,500 multiemployer defined benefit pension plans. These workers are among the more than 41 million whose pensions are protected under ERISA.

A multiemployer pension plan is a collectively-bargained pension arrangement involving related employers, usually in a common industry, such as construction, trucking, textiles, or coal mining. This contrasts to a single-employer plan, which may be sponsored by either one employer or by several unrelated employers. A defined benefit plan provides a specified monthly benefit at retirement. In many multiemployer plans, the participant's benefit is based on a flat dollar amount for each year of service.

For FY 2014, PBGC paid $97 million in financial assistance to 53 multiemployer plans. In the FY 2014 audited Financial Statements, PBGC reported that the multiemployer program's net position declined by $34 billion, increasing its deficit to more than $42 billion, an all-time high for the multiemployer program. PBGC's FY 2013 Projections Report shows that the risk of insolvency rises over time, exceeding 50% in 2022 and reaching 90% by 2025. When the program becomes insolvent, PBGC will be unable to provide financial assistance to pay guaranteed benefits to participants and beneficiaries in insolvent plans. We note, in December 2014, Congress enacted legislation—the Multiemployer Pension Reform Act of 2014—that, most significantly, provides a process for severely underfunded multiemployer plans to reduce participants' vested benefits as a means to stave off plan termination and the need for financial assistance.

Preliminary results of our first audit to assess PBGC's process for reviewing and approving financial assistance requests were shared with Agency management in July 2014. Our second audit focuses on accuracy of the benefit calculations and payments made by insolvent plans receiving financial assistance from PBGC, and PBGC's benefit validation process. This work is being conducted by actuaries at an independent public accounting firm. We plan to report our findings by year-end.

New Work Announced

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

PBGC officials continue to close recommendations; however progress is often offset by a greater number of new recommendations. Our audit work continues to identify risk areas with issues relating to internal control within the Corporation. For example, PBGC programs have been found to operate without policies and procedures, or with limited oversight function and poor monitoring. In addition, two new Significant Deficiencies were reported as a result of the FY 2014 Financial Statement Audit. And, the financial statement management letter reported weaknesses in the Agency-wide internal control risk assessment (see pages 23-24).

As a result, we initiated an audit of the effectiveness of PBGC's governance of internal control. Our objective is 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. We held the entrance conference and began fieldwork in March.

Financial Statement Audits

Unmodified Opinion on Financial Statements and an Adverse Opinion on Internal Control

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2014 and 2013 Financial Statements
AUD-2015-2 /FA-14-101-2 (November 14, 2014)
http://oig.pbgc.gov/pdfs/FA-14-101-2.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 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. Highlights of this report include:

- As of September 30, 2014, PBGC reported its net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $19.3 billion and $42.4 billion, respectively.
- This was a decrease in the deficit for Single-Employer Program of $8 billion and an increase the Multiemployer Program deficit of $34 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 $167.1 billion and $17.2 billion, respectively.

The Multiemployer Pension Reform Act of 2014 was signed into law after completion and issuance of this audit. The Act was enacted to fortify troubled multiemployer pension plans but presently its impact on PBGC's financial position is unknown.

CliftonLarsonAllen LLP conducted the financial statements audit under contract with and general supervision of our office.

Adverse Opinion on Internal Control

For the sixth consecutive year, we reported that PBGC had not maintained effective internal control over financial reporting (including safeguarding assets). Serious internal control weaknesses in PBGC's programs and operations resulted in the continued existence of three Material Weaknesses: (1) Benefits Administration and Payment Department operations, (2) entity-wide security program planning and management, and (3) access controls and configuration management.

During the course of the audit, PBGC completed corrective actions on the long standing Significant Deficiency regarding integration of PBGC financial systems and we closed this deficiency. This progress was offset by the identification of two new Significant Deficiencies concerning (1) financial reporting controls to assure data completeness and accuracy, and (2) controls regarding the calculation of the Present Value of Non-recoverable Future Financial Assistance liability.

To provide greater detail on PBGC's system of internal control, 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 Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2014 and 2013 Financial Statements Audit AUD-2015-3 /FA-14-101-3 (November 14, 2014)
http://oig.pbgc.gov/pdfs/FA-14-101-3.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 Deficiencies reported in the internal control section of the combined Independent Auditor's Report dated November 14, 2014 (AUD-2014-2/FA-14-101-2). For the sixth consecutive year we reported that PBGC has not maintained effective control over financial reporting. PBGC agreed with each recommendation and expressed their commitment to addressing the recommendations and to remediating the associated Material Weaknesses.

Material Weakness 1 - Benefits Administration and Payment Management and Oversight

BAPD manages the termination process for single-employer defined benefit plans and provides participant services (including calculation and payment of benefits) for PBGC trusteed plans. Although BAPD has initiated corrective actions to address previously reported control weaknesses, a number of control deficiencies remain and continue to pose significant risks to PBGC's operations. Control deficiencies include inaccurate calculation of plan participants' benefits, inaccurate financial reporting, and noncompliance with prescribed laws and regulations. BAPD's management has taken a multi-year approach to remediate the control weaknesses; significant challenges remain as it undergoes leadership changes and significant restructuring.

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 caused by IT system limitations and programming flaws;
- Documentation procedures were not followed for plan terminations and procedures used for system maintenance were inadequate; 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 12% of the samples tested. The projected value of the error to the entire PVFB liability of approximately $70 billion at September 14, 2014, had an estimated range of approximately $44 million understatement to $340 million overstatement and a point estimate of $148 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. In prior years, we reported that PBGC had not properly determined the fair market value of certain assets of trusteed plans as required by regulation. As a result, certain plan participant's benefits may have been misstated.

BAPD has undertaken significant efforts to revalue assets for certain pension plans. In FY 2014, BAPD revised plan asset valuation procedures and is working on refining the quality review process for plan asset valuation to be performed by Federal employees. Although certain corrective actions were implemented, the internal control weaknesses continue to deserve management focus. The new procedures have yet to mature, furthermore, BAPD has not completed the re-work of plan asset valuations to determine whether benefits require adjustments. Until these plan asset valuations are completed, significant risks to the reliability of participant benefit determinations and PBGC reported liability remain.

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 2014. These control deficiencies hinder PBGC from implementing effective security controls to protect its information from unauthorized access, modification and disclosure. The specific weaknesses included:

- Security Assessments and Authorizations (SA&As). During FY 2014, PBGC consolidated its multiple IT inventory lists into one authoritative list, and standardized its SA&A quality review approach. Currently, 17 of the 20 major applications and general support systems have had SA&As conducted.
- Common Security Controls. Using NIST SP 800-53, Recommended Security Controls for Federal Information Systems, in previous years PBGC identified 208 common security controls. During this period, the Corporation continued to change its common controls during the year which did not allow the control environment to mature. For example, PBGC consolidated two general support systems which decreased the number of common controls from 208 to 118. However, PBGC did not document this consolidation in controls and did not communicate the changes to system owners of major applications that rely on the common controls.
- Security Management. Though progress was made, the Corporation had not completely established and implemented tools and processes needed to obtain performance measures and information on security progress to facilitate decision making and management, including:
  - Finalizing metrics and security progress information to indicate the effectiveness of its security controls.

- Collecting relevant performance data on implementation measures to determine level of execution of security policy, effectiveness/ efficiency measures to evaluate results of security service delivery, and impact measures to assess business or mission consequences of security events.

Material Weakness 3 – Access Controls and Configuration Management

Access controls and configuration management controls are an integral part of an effective information security management program and remain a systemic problem throughout PBGC.

- Configuration Management. Although PBGC has defined baseline configurations for its systems, tools and applications and modified common configuration management controls, they require time to mature. For FY 2014, unresolved vulnerabilities still remain in key databases and applications, such as weaknesses in configuration, roles, privileges, and operating access.
- Access Controls and Account Management.
    - *Segregation of Duties.* PBGC had not effectively restricted developers' access to production.
    - *Account Management.* In FY 2014, PBGC assessed compliance with its policies for disabling and removing dormant accounts and found it was not in compliance with the Corporation's policies. PBGC found non-compliance with automated controls for 12 major applications and 5 sub-components of the general support system.
    - *Incident Handling*. Deficiencies in PBGC's Incident Response Program continued. We found that while PBGC had defined Incident Response Procedures the procedures did not provide clear and detailed guidance regarding how to:
        - Monitor information systems;
        - Detect, identify, document and report incidents – including when to elevate incidents.

    PBGC had purchased an automated tool to collect, analyze, search and monitor information security logs. However, the tool was not fully implemented to collect data enterprise-wide.

    Lack of significant progress in remediating incident response deficiencies resulted in the re-classification of seven recommendations from the FY 2013 FISMA report to Material Weakness 3 in the FY2014 Internal Control Report.

Significant Deficiency Closed: Integrated Financial Management

In FY 2014, PBGC deployed a new system to account for premiums owed and collected which interfaces with PBGC's consolidated financial system. The implementation of the new premium system, along with revisions of OMB integration requirements, enabled us to close the long-standing Significant Deficiency regarding financial system integration.

Concurrently, we reported two new Significant Deficiencies regarding financial reporting and calculation of the present value of non-recoverable future financial assistance liability for the multiemployer program.

Significant Deficiency 1 - Financial Reporting

The financial reporting process is at the forefront of preparing accurate and timely financial statements. During FY 2014, we found that certain controls were not in place. These control deficiencies create risk and impact validity, completeness and accuracy of financial reporting. In FY 2014, we found a combination of deficiencies that collectively represent a significant deficiency in financial reporting. These included:

- Insufficient controls concerning the completeness and accuracy of premium revenue recorded in the general ledger.
- Ineffective controls over manual journal entries and certain manual spreadsheets used to record financial transactions. Further, the Corporation did not have effective integrity and access controls of key financial spreadsheets that support its financial reporting.
- Monitoring of the valuation of non-commingled assets was deficient. We found that those responsible for recording plan asset activities performed inadequate reviews of transactions recorded in the general ledger, processed untimely transfers between non-commingled and commingled assets, and did not maintain documentation needed to support plan asset transactions.

Significant Deficiency 2 - Present Value of Non-recoverable Future Financial Assistance Liability

The present value of non-recoverable future financial assistance (PV NRFFA). liability relates to the multiemployer program. The liability calculation lacked a robust quality control process to verify inputs to the IPVFB system. We identified a number of control deficiencies during our September 30, 2014 testing. These included:

- Insufficient evidence was used to compute the PV NRFFA. PBGC initially used an email as evidence to support asset valuations used in the PV NRFFA calculation for a large plan. At our request PBGC obtained financial statements from the plan and determined the liability had been understated by $81 million.
- Data entry errors were found in the IPVFB system. PBGC's quality control process did not identify an input error. Correction of this error reduced the liability by approximately $36 million.
- Employer withdrawal liability payments were excluded from calculations without evidence that payments would not be made.
- Incorrect guarantee factors were used to derive the PV NRFFA which generated an understatement of $40 million.

We identified errors in approximately 23% of the items tested for calculating the PV NRFFA. We projected that the value of the error to the entire PV NRFFA liability of approximately $43 billion at September 30, 2014, had an estimated range of approximately $118 million understatement to $157 million overstatement and a point estimate of $74 million overstatement.

Fiscal Year 2014 Financial Statements Audit Management Letter AUD 2015-6/FA-14-101-5 (February 27, 2015; summary publicly available)
http://oig.pbgc.gov/summaries/FA-14-101-5.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-2015-3 /14-101-3). While these findings 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 management letter summarized findings that resulted in 12 new recommendations and reported on the status of 31 recommendations that remain open from prior years' management letter reports, including:

- OMB Circular A-123 Assessment Internal Control. Our examination determined (1) assessment procedures did not include a sufficient description of the process to determine controls to be tested; (2) the testing matrix was outdated; (3) prior to selecting samples for testing, completeness of population was not tested or documented; and (4) significant variances and inconsistencies in responses to the *Entity-wide Risk Assessment Survey* occurred because no directions were provided to respondents.

- Present Value of Future Single-Employer Benefit Liability for Non-Seriatim Liability. The liability for future single-employer program benefit payments was not accurately valued because it (1) did not include nonguaranteed benefits funded by recoveries for some plans or (2) used incorrect retirement factors.
    - Single-Employer Small Plan Bulk Reserve Contingency Liability. The liability calculation did include information for all plans.
    - Premium Filings. The Corporation did reconcile electronic transfer record data received from the U.S. Department of Labor to PBGC receipt data for completeness to aid in identifying missing premium filings.

PBGC agreed with the recommendations and provided planned corrective actions and estimated completion dates.

Information Technology Audits and Evaluations

We continued to report and work with PBGC on correcting long-standing IT weaknesses. We independently conducted scans of the PBGC network to determine the extent of vulnerabilities present on the Corporation's systems. PBGC agreed with OIG's recommendations and in some instances the Agency has already begun to take action.

FY 2014 Vulnerability Assessment and Penetration Testing Report
EVAL-2015-7/FA-14-101-6 (March 30, 2015, summary publicly available)
http://oig.pbgc.gov/pdfs/FA-14-101-6.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 the culture surrounding vulnerability management has improved. PBGC's information security critical and high vulnerabilities have decreased and patch management has achieved the highest level of maturity in the Agency's history. At the same time, PBGC continues to have challenges in mitigating longstanding weaknesses, as a number of issues have continued for multiple years.

Management Alert—CIO Reporting Structure at PBGC
December 8, 2014
http://oig.pbgc.gov/pdfs/MAR-12-8-14.pdf

When former Director Gotbaum changed the Chief Information Officer's reporting from the Director to reporting to the Chief Management Officer, the OIG raised a concern. We noted that statutes and OMB guidance specifies direct reporting to the Director. In addition, the optics of subordinating the CIO position when PBGC has two IT Material Weaknesses and a host of long-standing recommendations was not positive. When the then-Acting Director Maroni decided to retain that reporting structure, the OIG renewed its concerns in an Alert Memorandum. We cited laws and Executive branch guidance that required the CIO to report to the head of the Agency: the Paperwork Reduction Act, the Clinger Cohen Act, Executive Order 13011 and OMB Circular A-130. Upon consideration of our Memorandum, in January 2015, the then-Acting Director communicated that the new CIO (Robert Scherer, start date April 6, 2015) would report to the Director. We appreciate PBGC's actions to ensure information technology receives the appropriate level of visibility and accountability within the Agency reporting structure.

FY 2014 Federal Information Security Management Act (FISMA) Submission to the Office of Management and Budget
LTR 2015-1/FA-14-101-1 (November 14 , 2014)
http://oig.pbgc.gov/pdfs/FA-13-93-4.pdf

The Federal Information Security Management Act (FISMA) requires IGs to conduct an annual evaluation of their Agency's security programs and practices and to report to Office of Management and Budget the results of their evaluations. We reported PBGC has made progress in some areas of IT, yet other controls were not adequately updated to prepare PBGC for future threats. Significant weaknesses continued in incident response, continuous monitoring, and common control identification and dissemination.

Ongoing IT Audit Work

FY 2014 Federal Information Security Management Act (FISMA) Independent Evaluation Report
EVAL-201579/FA-14-101-7

OIG issues a separate evaluation report of deficiencies found during our FISMA review. We had extensive meetings with OIT personnel on the findings and corrective action recommendations during the period. This report will be issued in May 2015.

OIG Internal Report on PBGC's Cloud Computing Environment

This report, a follow-on to the CIGIE Cloud Computing report issued in September 2014, will focus on specific PBGC issues in its efforts to adopt cloud-computing technologies. We reviewed executed contracts between PBGC and cloud service providers for compliance with applicable standards. Our report with findings and recommendations will be issued in the next reporting period.

Congressional Communications

To fulfill our mission to keep Congress informed of our work and concerns, we held bipartisan briefings with staff from the Senate Committees on Health, Education, Labor and Pensions and Homeland Security and Government Accountability. We also briefed the House Committee on Government Oversight and Reform as well as met with staff from Senator Grassley's office to discuss our work.

House and Senate Oversight Committees' Requests. Each Inspector General received letters requesting information from the House Committee on Oversight and Government Reform (HOGR) and the Senate Committees on Homeland Security and Government Accountability (HSGAC) and the Judiciary. In part, there was a concern that Inspectors General were not receiving complete, unfiltered, and timely access to Agency records that they need to make findings and recommendations. Also, the House Committee reiterated its position to "hold agencies accountable when they ignore or otherwise fail to implement the cost saving measures your office has identified, and to leverage the Committee's resources to make sure every IG has access to the records he or she needs to do the job." The letters asked for similar types of information, including data about open audit recommendations, summaries of work (whether audit/evaluation/investigations) that was not publicly-available, cooperation with the OIG and access to information. In the Senate Committees' request, we were required to provide a detailed listing of all open audit recommendations including date opened and whether management agreed or disagreed with OIG recommendations.

- March 24, 2015 response to HOGR: http://oig.pbgc.gov/pdfs/LTR-3-24-15.pdf
- March 27, 2015 response to HSGAC and Judiciary: http://oig.pbgc.gov/pdfs/LTR-3-27-15.pdf

Several of these reporting requests would be codified under pending bipartisan legislation, The Inspector General Empowerment Act of 2015. The HSGAC and Judiciary request is an on-going request to be submitted at the time of this semiannual report to Congress.

Congressman Bennie Thompson on Behalf of Constituent. On January 30, 2015, we responded to a complaint that PBGC was not considering all assets of the controlled group of a plan in determining whether to terminate the plan under the statutory distress criteria. We did not conduct an audit or investigation. We interviewed pertinent staff and PBGC officials involved, and reviewed ERISA regulations. We inquired about current procedures and obtained and reviewed PBGC's documentation. From discussions with PBGC officials, we determined that PBGC has not made a final determination with respect to whether the pension plan meets the statutory distress criteria. PBGC is continuing to analyze the financial information, including obtaining additional documents and engaging in discussions. At the end of that process, PBGC has stated it will document its analysis and conclusion regarding whether the pension plan must be terminated under ERISA. This analysis could result in a recommendation to terminate the pension plan. PBGC has an internal multi-disciplinary group to review the recommendation and analysis to determine whether the plan should be terminated. If the reviewing group concurs with the recommendation to terminate the pension plan in a distress termination, PBGC will notify the plan participants.

We shared this information with the Congressman, providing information about PBGC's termination process: http://oig.pbgc.gov/pdfs/LTR-1-30-15.pdf

Investigative Results

Protection of PBGC and its stakeholders from financial fraud is a primary focus of OIG investigators. Fraud protection includes identification, detection and prevention activities. Stakeholders include participants who receive pension payments from PBGC and PBGC employees. In the past, participants whose pension payments were stolen or otherwise compromised were most often the victims of criminal activity by family members or other closely-associated individuals. Now, as with the society at large, they are often victims of broader fraud schemes perpetrated by phone or internet scams.

Fraud Detection and Prevention Activities

Investigations are the primary tool we use to detect and prevent fraud. We referred one matter to a criminal prosecutor this period; the remaining investigations are still open. In addition to investigations, we undertook several initiatives to detect and prevent fraud, summarized below.

"Intuitive Data Exchange Analytics" (IDEA) Project

To broaden our proactive approach to conducting investigations and audits we are exploring data analytical solutions to expedite parsing of large data sets at PBGC to develop investigative and audit leads. We contracted for expert data analytics services to conduct an "Intuitive Data Exchange Analytics" (IDEA) two-phase pilot project that would identify and recommend improved process efficiencies to examine populations of data either within PBGC or to which it has access. The IDEA project continues to examine data related to multiemployer pension plans derived from multiple sources within PBGC and the Department of Labor, and has identified viable investigative associations within the first four months of development.

Forensic and Technical Resources Strategic Partnership

In the course of carrying out our mission, we may encounter investigations and audits which require forensic and/or technical support and services. To enhance our forensic and technical investigative and audit capabilities, the OIG entered into a Memorandum of Understanding (MOU) with the Treasury Inspector General for Tax Administration (TIGTA). Through this strategic partnership, we have secured forensic and technical support and services which leverage existing federal law enforcement resources and technology to expand our subject matter expertise in the areas of digital computer forensics, questioned document examination, latent fingerprint analysis, and digital imaging. It is also expected that there will be an immediate diminution of the operational delays historically experienced with processing PBGC OIG requests for such support and services from other federal agencies which experience high demand for similar services.

"Clustering" Uncollected Pension Benefit Payment Debt Initiative

In consideration of further application of the IDEA solution, we have obtained PBGC data concerning PBGC efforts to recover more than $4.2 million in overpaid or fraudulently acquired pension benefits to a population of 2,067 individuals in terminated single-employer plans. As of March 4, 2015, PBGC was successful in securing partial to full repayment of about $813,000 by 489 of the 2,067 individuals. We are examining the balance of almost $3.5 million in overpayments to the remaining 1,578 individuals through a geographic "clustering" review of who has not repaid or refuses to repay. Through the Office of the United States Attorney (OUSA) in Washington, DC, we will propose to enter into a coordinated strategic partnership whereby regional OUSA will package multiple individual lower dollar value offenders identified as having engaged in fraud or who refuse to repay improperly paid benefits, for pretrial or prosecution consideration. This would have a nation-wide impact, publicizing that pension benefit fraud, no matter what the dollar value, is not tolerated.

Fraud Awareness Alerts

The OIG continues to inform and educate pension plan participants, PBGC staff and the general public to the existence and operating premises of various fraud schemes. These schemes target unsuspecting individuals and seek to defraud them of money, sensitive personal information, or both. In this reporting period, we issued two Fraud Awareness Alerts, coordinating with PBGC to ensure the second warning was referenced on PBGC's website and will be sent to participants.

- <u>2015-01 Malicious Computer Software</u> involved notice to the PBGC Information Technology Security staff of malicious software which was used to target financial institutions in the corporate marketplace. The malicious software steals user information and access credentials, which can then be used to further other fraud schemes such as electronic funds theft or identity theft. We provided PBGC a recommended course of diagnostics and mitigation. This fraud alert is not publicly available.

- <u>2015-02 Anthem Service Benefit Plan (Blue Cross/Blue Shield) Data Breach</u> involved notice to PBGC employees and general public members of the Anthem, Inc. Service Benefit Plan (Blue Cross/Blue Shield) insurance program of the fact Anthem experienced an electronic records data breach on January 29, 2015. The breach resulted in the possible compromise of account holder Personally Identifiable Information (PII) which could then lead to instances of identity theft.

Fraud Briefings and Outreach

This period the Special Agents visited four PBGC Field Benefit Administration (FBA) Offices in Miami, Coraopolis, Richmond Heights and Sarasota to promote fraud awareness and understanding of the OIG mission. These FBAs are wholly-contracted offices conducting business on behalf of PBGC with both retirees and those not yet receiving a pension benefit. While at the FBAs, the Special Agents emphasize staff's "front-line" responsibility in protecting PBGC from potential fraud and to report suspicious activities to the OIG.

As a result of the FBA fraud briefings, we received several contacts with fraud questions and two referrals of potential fraud.

Allegation De-Confliction Working Group

The Assistant Inspector General for Investigations (AIGI) serves as the OIG representative to a working group comprised of PBGC Senior Management and the OIG to focus on the timely and standardized processing of allegations of employee misconduct. This period the group worked on revisions to the receipt and adjudication process of allegations and complaints to clarify for employees, contractors and the public on where and how to file complaints concerning alleged misconduct. The new process document is not final.

Statutory Federal Law Enforcement Authority

Most criminal investigators in the OIG community have full statutory law enforcement authority—that is, the authority to execute search warrants, make arrests and carry firearms. Ours did not, though much of our investigative work is similar to that of other Federal law enforcement agents who have such authority. Historically, the fact that our agents have lacked this authority has placed them at a severe disadvantage when conducting investigations, limiting our ability to conduct some investigations, including joint investigations, and subjecting the investigators to potential danger or harm.

On December 9, 2014, each of our Special Agents was sworn in as a Special Deputy U.S. Marshal at the US District Courthouse in Washington, DC. Prior to submitting our application for statutory authority, the OIG took action to ensure its Special Agents are in full compliance with what is required, including mandating that each Special Agent maintains firearms training proficiency on a monthly basis at the Federal Law Enforcement Training Center in Cheltenham, Maryland, and receives recurring non-lethal techniques training. We continue to review and update our investigative policies and procedures.

Activities to Implement Statutory Law Enforcement

Upon receiving statutory law enforcement authority, we took steps to ensure our Special Agents had the necessary equipment and tools to effectively exercise the authority.

- Acquisition of Law Enforcement Equipment. We researched the most modern law enforcement equipment items appropriate to implement our law enforcement authority and feasible for purchase with budgeted funds. This acquisition planning and execution spanned three months. The equipment will allow our Special Agents to execute fully their law enforcement responsibilities, improve their safety, as well as enhance their ability to execute our expanding investigative mission function.
- Connection to Washington Area Law Enforcement System Criminal Records Database. To advance the safety of our criminal investigative staff, we partnered with the Washington Metropolitan Police Department (MPD) to secure no-cost access to their Washington Area Law Enforcement System (WALES) criminal records database. This connection permits investigators to conduct various official law enforcement related record queries, such as through the Federal Bureau of Investigation's National Crime Information Center (NCIC) and National Law Enforcement Telecommunication System (NLETS) concerning persons under investigation.

Voluntary Peer Review

To ensure that OIG's are operating efficiently and with a benchmark of integrity, investigative peer reviews are mandated for all OIGs who have full statutory law enforcement authority and are conducted in accordance with standards established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Prior to receiving statutory law enforcement, we requested a peer review of our investigative operations and the Library of Congress Office of the Inspector General was assigned to conduct it. Final results of the peer review are pending.

Other OIG Statutory Reporting

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 audit or investigation. 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 PBGC 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. Appropriate remediation actions are being taken. A copy of this peer review is at our website: **http://oig.pbgc.gov/pdfs/PBGC_Peer_Review_Report_2013.pdf**.

We are awaiting notification of the date of our next peer review from CIGIE.

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 prepared its final rule on reportable events; at the end of the period it was still under OIG review.

Other OIG Activities

Presentation to Industry Conference

At the request of CliftonLarsonAllen, LLP (CLA), Acting Inspector General Deborah Stover-Springer and Assistant Inspector General for Audit Rashmi Bartlett spoke at CLA's annual Federal Government Industry Conference in January 2015. This conference provided training and information on the latest financial management, accounting and auditing challenges facing the federal financial management and auditing communities. The training sessions included speakers from leading accounting standard setting bodies such as the Federal Accounting Standards Advisory Board (FASAB). OIG shared its perspective on effective report writing with more than 110 CLA staff, managers, and principals. Our session was the highest-rated presentation of the two-day conference. As a result, we have been asked to expand and deliver this presentation to the Association of Government Accountant's annual Professional Development Training Conference in Nashville, Tennessee this July. This national conference brings together the top officials in federal, state and local government, as well as from academia and the private sector, for three-and-a-half days of valuable training and networking.

Small Agency Oversight Working Group

The Acting Inspector General continued to serve as co-lead of an independent working group of over a dozen Inspectors General formed in Summer 2014 in response to Congressional interest in developing a statutory solution to financial and public trust risks engendered by the absence of direct Office of Inspector General (OIG) oversight of more than 60 Federal entities without an OIG. Members of Congress have noted that these entities, responsible for more than one billion dollars in annual expenditures, would benefit from OIG oversight. These entities vary in mission, level and sources of funding, governance structure, legal authority, and public visibility. This important legislative initiative potentially impacts the entire OIG community.

The Acting Inspector General's significant leadership role culminated in the issuance to certain Congressional committees of the working group's final report on March19, 2015, after seeking input from the OIG community. The report proposes an innovative pilot of two complementary models for risk-based, right-sized, Agency-specific oversight. The models raise the level of informed dialogue for collegial analysis of the practical challenges inherent to implementing effective, efficient, and economical OIG oversight that promotes public trust.

The Acting Inspector General detailed a seasoned Senior Executive Service employee, Joseph Gangloff, from the U.S. Office of Government Ethics as Special Counsel to the Inspector General to, among other things, serve as the project manager. Over a period of several months, the Assistant Inspector General for Audit (AIGA) and an auditor from our office worked closely with Mr. Gangloff, members of the working group, other IGs and a wide range of other stakeholders to inclusively coordinate background information, statutory research, comments, analysis, deliberations and recommendations. Under Mr. Gangloff's leadership, the working group developed a solid foundation for its data-driven, Agency-specific proposal, highlighting the clear consensus that arose from the initially widely-divergent viewpoints of working group members. The final report also reflects, accommodates, and incorporates other viewpoints from throughout the IG community.

The Acting Inspector General and other working group principals have discussed the proposal with Congressional staff and have laid the groundwork to provide timely input to interested parties as a draft bill evolves.

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 the two-week "Introductory Auditor Training." More than 79 participants from 37 OIGs across the community were trained at a significant cost-savings because CIGIE did not have to rent training facilities.

External Professional Activities

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

- AIGA Rashmi Bartlett serves on the Federal Audit Executive Council (FAEC). She is also a member of FAEC's DATA Act Working Group. The purpose of the working group is to assist the IG Community in understanding and meeting its DATA Act oversight requirements by (1) serving as a working level liaison with Treasury, (2) consulting with the Government Accountability Office, (3) developing a common review approach and methodology, and (4) coordinating key communications with other stakeholders.

- Audit Manager Joseph Marchowsky serves on the Accounting and Audit Policy Committee (AAPC), 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.

- Special Agent in Charge Curtis D. Flood serves as the Chairman of the Data Analytics Working Group (DAWG) for the CIGIE Information Technology Committee. The DAWG is comprised of investigators, auditors, IT professionals and operational support staff from many OIGs. Initially formed to develop a collaborative centralized web-based platform to compile and consolidate data analytic resources for OIG community use. The DAWG now serves as an incubator for broader analytical solutions for the OIG community.

- Audit Manager Sonya Zacker continues to participate 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. Although our office does not engage in mainstream types of new media, such as Facebook and Twitter, it is nonetheless important to our office to explore ideas and best practices for communications and ways to help increase public understanding of IG work.

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.	32
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	5-28
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	5-28
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	41-43
Section 5(a)(4)	Matters referred to prosecutorial authorities.	37
Section 5(a)(5)	Summary of instances in which information was refused.	32
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.	39-40
Section 5(a)(7)	Summary of each particularly significant report.	5-25
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	39-40
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	39-40
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.	32
Section 5(a)(11)	Significant revised management decisions.	32
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	32

SUMMARY OF AUDIT AND INVESTIGATIVE ACTIVITIES

For the Six-Month Period October 1, 2014 through March 31, 2015

Audits/Evaluations Issued

Number of Reports	7
Number of Recommendations	76

Management Decisions

Open Recommendations Beginning of Period	138
Opened This Period	76
Closed This Period	27
Open Recommendations End of Period	187
Reports with Open Recommendations End of Period	30

Investigations

Pending Beginning of Period	27
Opened	12
Closed	0
Pending End of Period	39

Complaints[1]

Pending Beginning of Period	10
Opened	33
Closed	20
Pending End of Period	23

Financial Recoveries[2]

Theft of Funds Recovered	$0
Court Ordered Fines, Penalties, and Restitution	$0
U.S. Government Property Recovered	$0
Recovery of Funds	$0

Criminal Actions[2]

Arrests	0
Indictments	0
Convictions	0

Administrative Actions[2]

Referrals

For Prosecution:	
Department of Justice	1
Various States' Attorney Offices	0
Declined	0
For Other Action:	
PBGC Management for Corrective Action	0

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

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

RESULTS OF REPORTS ISSUED

For the Six-Month Period Ending March 31, 2015

	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.	7			
FY 2014 Federal Information Security Management Act (FISMA) Submission to the Office of Management and Budget (11/14/2014)		$0	$0	$0
Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2014 and 2013 Financial Statements (11/14/2014)		$0	$0	$0
Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2014 and 2013 Financial Statement Audit (11/14/2014)		$0	$0	$0
Audit of Pension Benefit Guaranty Corporation's Closing Package for Fiscal Years 2014 and 2013 (11/17/2014)		$0	$0	$0
PBGC Compliance with MAP-21 Still a Work in Progress (1/30/2015)		$0	$0	$0
Fiscal Year Financial Statement Audit Management Letter (2/27/2015)		$0	$0	$0
Fiscal Year 2014 Vulnerability Assessment and Penetration Testing (3/30/15)		$0	$0	$0
Total (Add A. & B.)	8	$0	$0	$0

RESULTS OF REPORTS ISSUED

For the Six-Month Period Ending March 31, 2015

	Number Of Reports	Questioned Costs	Unsupported Costs	Funds Put to Better Use
C. For which a management decision was made during the reporting period.	7	$0	$0	$0
(i) dollar value of disallowed costs		$0	$0	$0
(ii) dollar value of costs not disallowed		$0	$0	$0
D. For which no management decision had been made by the end of the reporting period.	1	$0	$0	$0
E. For which no management decision was made within six months of issuance.	0	$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
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 Controls - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007 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	10	Entity-Wide Information Security Program Planning & Management	PBGC needs to complete its efforts to fully implement and enforce an effective information security program.
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 Controls - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007 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	15	Access Controls	PBGC needs to mitigate the systemic issues related to information access controls.

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-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	3	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-2010-08/IT-09-67 Authorization to Operate PBGC Information Systems 08/18/2010	2	Information technology general support systems and major applications without ATOs required by OMB.	PBGC should develop a comprehensive plan to remediate identified vulnerabilities.
AUD-2012-2/FA-11-82-2 Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Years 2010 and 2011 Financial Statements Audit 11/14/2011	7	Benefits Administration and Payment Department Operations	PBGC needs to implement verification and quality controls over asset evaluations.

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
EVAL-2012-5/PA-10-72 PBGC Processing of Terminated United Airlines Pension Plans was Seriously Deficient 11/30/2011	7	Systemic errors and omissions in audits of terminated pension plans	PBGC needs to strengthen the post-trusteeship audit process.
AUDIT 2014-8/PA 11-80 Increased Oversight, Internal Controls and Performance Accountability Needed for PBGC's Monitoring, Enforcing and Modifying Negotiated Funding Agreements 3/21/2014	8	PBGC had not developed overarching policies and procedures for monitoring, enforcing and modifying the agreements. Further performance measures to provide a meaningful assessment of the program are needed.	PBGC needs to define, establish and implement a consistently managed program with documented and assigned responsibilities including key controls.

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

If you want to confidentially report or discuss 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

TTY/TDD:

For hearing/speech impaired services,
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 34713
Washington, DC 20043-4177