

Semiannual Report to Congress

April 1 – September 30, 2015



Office of Inspector General Pension Benefit Guaranty Corporation

SARC No. 53

Our Value Framework

Principles

Integrity – Respect – Excellence

Vision

Providing deep knowledge and sensible solutions through independent, positive engagement

Mission

Conduct independent and objective audits and investigations of PBGC programs and operations

Provide leadership to promote efficiency and effectiveness

Prevent and detect fraud and abuse in PBGC programs and operations

Keep the Board and the Congress fully and currently informed about problems and deficiencies

Report immediately to the Board whenever the Inspector General becomes aware of any particularly serious or flagrant problems

Report expeditiously to the Attorney General whenever the Inspector General has reasonable grounds to believe there has been a violation of Federal criminal law

Pillars

People Focused – Process Oriented – Performance Driven

From the Inspector General

October 30, 2015

Board of Directors
Pension Benefit Guaranty Corporation

I am pleased to present this Semiannual Report summarizing the activities of our office for the period April 1 through September 30, 2015.

Our office's oversight efforts continue to focus on high risk areas including internal control, valuation of pension plan benefits and related liabilities, and information security. We observed some improvements in the Corporation's information security program during this period; however, continued commitment is required to remediate long-standing deficiencies and to adapt to the changing threat environment. We continue to monitor management's effort and progress in other areas. The number of open audit recommendations decreased from 187 to 163.

In carrying out our responsibilities, we completed three audit and evaluation reports. We obtained one indictment for pension benefit fraud, and closed 46 complaints and investigations. To promote effectiveness, we issued a White Paper on Enterprise Risk Management, and to keep management and the Board currently informed about problems, we issued a Risk Advisory identifying issues found during an audit.

I thank the Board for its continued support of our office, PBGC management for their continued cooperation, and former Acting Director Alice Maroni for setting the tone at the top after my appointment as Inspector General in May 2015. I thank our employees for their enthusiasm and efforts especially through the challenges of adjusting to a new Inspector General, and I thank Counsel Deborah Stover-Springer, who skillfully served as Acting Inspector General for 19 months prior to my appointment and who continues to serve as a valuable member of our executive leadership team.

Respectfully submitted,



Robert A. Westbrooks
Inspector General

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Statement Regarding Plain Writing

We strive to follow the Plain Writing Act of 2010. The Act requires that government documents be clear, concise, well-organized, and follow other best practices appropriate to the subject or field and intended audience. The abbreviations we use in this report are listed below.

Abbreviations

CIGIE	Council of the Inspectors General on Integrity and Efficiency
CLA	CliftonLarsonAllen, LLP
ERISA	Employee Retirement Income Security Act of 1974
ERM	Enterprise Risk Management
FISMA	Federal Information Security Management Act
IPIA	Improper Payments Information Act
IT	Information Technology
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	U.S. Office of Management and Budget
OPM	U.S. Office of Personnel Management
PBGC	Pension Benefit Guaranty Corporation

Executive Summary

During the period April 1 through September 30, 2015 we:

- provided oversight of IT security activities through weekly meetings, quarterly monitoring of network security scanning results, and ad hoc coordination of high risk matters such as PBGC's actions following the OPM data breach (page 4)
- closed 51 open audit recommendations by dedicating additional OIG resources to audit follow-up after receipt of a record number of recommendation closure requests from management (page 8)
- issued three audit and evaluation reports
 - **Cloud Computing.** We found that PBGC's cloud computing program lacked clearly established standards and effective controls. We recommended that management adopt cloud computing standards and implement controls to ensure the security and auditability of externally hosted shared service providers. (page 10)
 - **Federal Information Security Management Act Evaluation.** In follow up to our FY 2014 submission to the Office of Management and Budget, we provided narrative information to management regarding the 9 FISMA findings reported to OMB along with 33 recommendations for corrective action. (page 10)
 - **Improper Payments.** We concurred with PBGC's assessment that payments to Federal employees were not susceptible to a significant level of improper payment. We could not opine on the susceptibility of the multiemployer financial assistance program to significant improper payment as reported in the PBGC FY 2014 annual report due to the insufficiency of the number of financial assistance loans sampled as part of the Corporation's statistical projection. (page 11)
- issued a Risk Advisory to management on records management and quality assurance in multiemployer financial assistance cases (page 9)
- issued a White Paper to the Board and Management on Enterprise Risk Management (page 9)
- obtained an indictment for pension benefit fraud and presented for prosecution two additional pension benefit fraud investigations which were accepted for Federal prosecution (pages 14 and 18)

Background

The Pension Benefit Guaranty Corporation

The PBGC was established under the Employee Retirement Income Security Act of 1974 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.

The PBGC is responsible for protecting the pensions of some 41 million American workers in nearly 24,000 private sector defined benefit plans. The Corporation receives no general tax revenues. It manages about \$90 billion in assets financed by insurance premiums from its single-employer and multiemployer pension insurance programs, investment income, and the assets of terminated plans. In 2014, the Corporation paid \$5.5 billion in monthly retirement benefits to nearly 813,000 retirees in some 4,600 single-employer plans and it paid \$97 million in financial assistance to 53 multiemployer plans.

The PBGC faces significant, long-standing, and well-known risks. Both pension insurance programs face serious long-term funding challenges with the premium base declining as fewer employers offer defined benefit plans. In 2003, the Government Accountability Office designated the single-employer pension insurance program as high risk, and GAO added the multiemployer pension insurance program to its high risk list in 2009. At the end of FY 2014, PBGC's net deficit in the combined programs was \$62 billion with exposure of \$184 billion for projected future underfunded plans. According to PBGC projections, it is more likely than not that the multiemployer pension insurance program will run out of money by 2025.

PBGC's governance structure comprises the Board of Directors, their Board Representatives, the Advisory Committee, 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.

We are pleased that the U.S. Senate recently confirmed W. Thomas Reeder Jr. as Director, and we look forward to working with Director Reeder.

The Office of Inspector General

The PBGC Office of Inspector General was created under the 1988 amendments to the Inspector General Act of 1978. We provide independent and objective audits and investigations to help the Congress, the Board of Directors, and PBGC protect the pension benefits of American workers.

We are organizationally independent from the Corporation, with the Inspector General reporting to the Board of Directors. Under Public Law 112-141, the Inspector General must attend at least two Board meetings a year “to provide a report on the activities and findings of the Inspector General, including with respect to monitoring and review of the operations of the corporation.”

Our audit staff is led by an Assistant Inspector General for Auditing, our investigative staff is led by an Assistant Inspector General for Investigations, and the OIG is supported by an Administrative Officer. The OIG executive leadership team consists of the Inspector General, Chief of Staff, and Counsel.

Our office operates in compliance with the *Quality Standards for Federal Offices of Inspector General*, issued by the Council of the Inspectors General on Integrity and Efficiency. 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 the *CIGIE Quality Standards for Investigations*.

We strive to provide deep knowledge and offer sensible solutions through independent, positive engagement. We focus our available resources on the highest risk areas and continuously seek ways to provide value to our stakeholders.

Management Challenges

Information Security

For many years, our office has identified information security as a top management challenge. The FY 2014 financial statement audit again identified two material weaknesses relating to information security. A *material weakness* is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable basis that a material misstatement of the PBGC's financial statements will not be prevented, or detected and corrected on a timely basis. One material weakness relates to Entity-Wide Security Program Planning and the second material weakness involves Access Controls and Configuration Management.

The PBGC Office of Information Technology is responsible for the information security program, and the Chief Information Officer and Chief Information Security Officer lead these efforts. In prior years, we observed that this program lacked focus. In FY 2015, new leadership provided the direction and guidance needed to implement a coherent framework of security controls designed to protect PBGC's information from unauthorized access, modification and disclosure. OIG and OIT leadership and responsible staff met weekly during this reporting period to discuss progress on open audit recommendations, questions relating to proposed corrective action, and other oversight matters such as quarterly network scanning results and OIT's response to the Office of Personnel Management data breach.

Management's efforts have resulted in requests for closure of 9 of the 10 open audit recommendations underlying the Entity-Wide Security Program material weakness. The OIG and our contracted independent public accounting firm will evaluate these closure requests as part of the FY 2015 financial statement audit. PBGC has also ensured timelier patching of discovered security vulnerabilities, which has resulted in PBGC scoring more favorably than the Federal agency average in the U.S. Department of Homeland Security weekly Cyber Hygiene Assessment. Finally, PBGC is reporting a *higher* number of internally reported security incidents. This number has increased significantly from an implausible zero in 2013 to more than 50 in 2015. This represents the use of more-advanced technology, stronger processes, additional staff with specialized IT security experience, and a greater commitment to transparency and accountability.

Notwithstanding these improvements, continued focus and efforts are needed to: prevent backsliding, ensure PBGC swiftly adopts the latest federal security standards, and adjust to a changing threat environment. The latest information security standards are found in NIST Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*. This revision was issued in April 2013 and contains over 400 pages of security and privacy control requirements. PBGC has not yet completed the migration to these standards and PBGC information systems remain vulnerable. At the same time, there has been a paradigm shift among information security and accountability professionals. There is a clearer focus on threats following the 2015 breach of OPM systems which compromised the personal

information of 4.2 million current and former Federal employees, and a separate breach which compromised OPM systems containing security clearance related records of 21.5 million individuals.

Modernization of Benefit Calculation and Valuation Information Systems

PBGC relies upon obsolete technology and legacy information systems to perform its essential service of ensuring that retiree's receive their correct pension amount and ensuring that PBGC's liability for future benefits is accurately reported in the annual financial statements. In the FY 2014 financial statement audit, the OIG's contracted independent accounting firm again identified Benefits Administration and Payment Department Management and Oversight as a material weakness.

PBGC is modernizing its benefits-related IT systems and several open audit recommendations cannot be closed until the modernization is complete. Management is projecting completion of this modernization project and closure of these open audit recommendations by December 31, 2018.

PBGC's modernization project involves the Integrated Present Value of Future Benefits system (IPVFB), Spectrum and related systems. The total FY 2015 contract ceiling for these IT systems was \$15.1 million. Despite the critical nature of this modernization project and the millions of dollars involved, there is little information about this project in PBGC public documents and on its web site.

We have identified oversight of this modernization effort as a top management challenge in light of the critical nature of the systems, PBGC's history of challenges in integrating its financial management systems, and the reliance on contract support.

Transparency and Accountability of Professional Services Contracting

Our office has raised concerns for many years about management's oversight of professional services contracts. In 2011, we found that a PBGC contractor failed to exercise due professional care in conducting a plan asset audit for the National Steel pension plan and PBGC's lack of effective oversight failed to identify the sub-standard audit work. In 2012, we reported that PBGC failed to protect the interests of United Airlines workers and retirees when it contracted for and accepted a series of poor quality and mistake-ridden audits. In responding to a 2014 Congressional request, we reported that delays in processing the final benefit determinations for plan participants in the Delphi Retirement Program for Salaried Employees was delayed in part after PBGC initially contracted with a public accounting firm but then terminated the contract over quality problems.

PBGC is highly-dependent on contractors to conduct its work. Contractors' work includes providing IT support, developing and assessing internal control, and calculating and paying pension benefits. For example, PBGC's Benefits Administration and Payment Department oversees benefit administration activities for terminated defined benefit plans through five field offices staffed with about 255 contractors. The department also has about 110 contract actuaries who provide actuarial valuation of benefits, and about 75 contract auditors who support plan asset evaluations. Despite the critical services provided to PBGC by professional service contractors, there is little information about these contracts in PBGC public documents or on its web site.

We have identified transparency and accountability of professional services contracting as a top management challenge in light of PBGC's history regarding contractor oversight and its heavy reliance on contracted professional staff.

OIG Work to Address Management Challenges and Strengthen Internal Controls

Monitoring and Review of PBGC Operations

In addition to our responsibilities under the Inspector General Act, Public Law 112-141 (commonly known as MAP-21), requires that we provide “monitoring and review of the operations of the corporation” and that we report our activities and findings at no fewer than two Board meetings a year. In practice, we attend quarterly Board meetings, and we report our observations in both open and executive session. In addition, we communicate with the Board Representatives at monthly conference calls and more often as needed. Much of our monitoring and review activities have been focused on long-standing concerns over the number of open audit recommendations and insufficient management attention to internal control.

During this reporting period, we also provided leadership to the Corporation to promote an enterprise risk management program. Such a program should result in a lasting reduction in open audit recommendations and improvements in the internal control environment.

Actions to Improve the Internal Control Environment

Since 2008, our office has consistently reported concern over the number of open audit recommendations. In our Semiannual Report No. 40 (covering the period October 2008 to March 2009), we reported concern over 130 open audit recommendations. Of the 130 open recommendations issued, however, we noted that 50 had been issued within the prior year and that most of these 50 recommendations were in the process of being implemented.

In our Semiannual Report No. 41 (covering the period April to September 2009), we reported 143 open audit recommendations. More significantly, though, we also reported that we had re-opened some previously closed audit recommendations after discovering that management had incorrectly reported corrective action had been taken when it had not been. That is, PBGC did not actually take the corrective action it reported to the OIG. These revelations increased the level of professional skepticism required under Government Auditing Standards, and our office provided additional resources to audit follow-up to ensure corrective actions were being accurately reported. At the same time, additional audit recommendations were being issued, adding to the backlog.

By our Semiannual Report No. 43 (covering the period April to September 2010), open audit recommendations climbed to 201 at the beginning of the semiannual period and ended at 163. Five years later, open audit recommendations are coincidentally again at 163 (as of the end of this reporting period). In FY 2014, the Corporation received its sixth consecutive adverse opinion on internal control.

Our office has been persistent in drawing attention to this issue, and we have engaged

Congress, the Board, and leaders throughout the Corporation. Despite the reduction of open audit recommendations only back to the 2010 level, we observed some demonstrable changes during this reporting period.

- Management submitted a record number of recommendation closure requests for consideration during the FY 2015 financial statement audit cycle (91). As of September 30, many of these requests were still under review by our office and the independent public accounting firm conducting the FY 2015 financial statement audit.
- PBGC amended annual performance plans for managers to include a performance element on internal control. Managers are now evaluated in part on their ability to “develop a strong internal control environment by: consistently communicating the importance of a strong internal control culture; developing open and positive lines of communication with external and internal auditors; and developing, implementing and continuously monitoring effective management controls of programs and responding timely with effective corrective actions to audit findings.”
- PBGC conducted internal control training for managers and employees.

At the same time, our office sought ways to balance independence with positive engagement to address these issues. The OMB guidance on audit follow-up, Circular A-50, states that “Audit follow-up is an integral part of good management, and is a shared responsibility of agency management officials and auditors.” As part of our shared responsibility, we dedicated additional resources to audit follow-up. We closed a total of 51 audit recommendations. We attended weekly meetings with leadership and staff from the Office of Information Technology to discuss questions on open audit recommendations and progress on corrective action. Following the guidance found in the GAO special publication, *How to Get Action on Audit Recommendations*, GAO/OP-9.2.1, we examined all open recommendations to ensure they were still relevant and feasible given the passage of time. Our goal with this re-baseline initiative was to provide Congress, the Board, and management with a more current picture of the risks facing the Corporation based upon our audit work. Of the 51 recommendations that we closed, 31 closures were based upon review of PBGC’s closure packages. We administratively closed 20 recommendations as a result of our re-baseline initiative, which in some instances involved the consolidation of recommendations.

Time will tell whether management’s actions result in short- and long-term improvements. We commend the Board for its clear and consistent message to management on the importance of internal control, and we commend management for its new approach. Management must remain focused and committed to this issue, and our office will remain vigilant. This is a work in progress.

Risk Advisory

Multiemployer Financial Assistance Review Process (September 30, 2015)

(<http://oig.pbqc.gov/pdfs/MAR-9-30-15.pdf>)

During the course of an audit regarding the multiemployer financial assistance review process, we identified risks that warranted management's attention. We found that PBGC's organization of financial assistance determinations and supporting records were incomplete, not readily available for examination, and not easily accessible by management and stakeholders. This makes it difficult to monitor and evaluate program performance timely and will not be scalable to handle the exponential growth that is expected in financial assistance case work. We also found that PBGC quality assurance activities over contractors conducting financial assistance case work needs improvement.

White Paper

Enterprise Risk Management (September 10, 2015)

(<http://oig.pbqc.gov/pdfs/ERM-MAR-9-10-15.pdf>)

To address long-standing risks and concerns, Congress mandated in 2012 that PBGC designate a *Risk Management Officer* "whose duties [shall] include evaluating and mitigating the risk that the corporation might experience. The individual in such position shall coordinate the risk management efforts of the corporation, explain risks and controls to senior management and the board of directors of the corporation, and make recommendations." While management had meetings and discussions about this position, as of July 2015, it had not implemented this requirement.

Following discussions with the Board of Directors at the July meeting, we concluded that we could provide value to the Board and management by preparing a White Paper on enterprise risk management requirements and practices at other organizations. Within a few weeks of the release of the White Paper, management designated an acting risk management officer and created a Risk Management Council. Management has briefed the Board of Directors and Advisory Committee on these developments. We are encouraged by this progress and look forward to overseeing PBGC's adoption of an ERM framework and communicating fraud and operational risks.

Performance Audits

PBGC Began Developing Methods for Oversight and Administration of Cloud Computing Service Providers – Work is Needed for the Expected Increase in Externally Hosted Systems, AUD-2015-11/PA-14-100 (August 6, 2015)

(<http://oig.pbqc.gov/pdfs/PA-14-100.pdf>)

We evaluated PBGC's efforts to adopt cloud-computing technologies and reviewed two of the Corporation's cloud service contracts for compliance with applicable standards. We conducted this audit in conjunction with a CIGIE Government-wide initiative. We found that PBGC did not have established standards and criteria for identification of cloud service providers. Further, PBGC had not fully defined roles and responsibilities for ensuring critical clauses are included and monitored in cloud computing contracts. This occurred because PBGC's process for managing cloud service providers has not matured. A lack of conformity and consistency in deploying and assessing cloud service providers presents risk to PBGC. Contracts and vendors that should be administered as cloud service providers may not receive the appropriate oversight and scrutiny to ensure the security of PBGC data. PBGC management agreed with our recommendations to establish cloud computing standards and to ensure background investigation requirements address non-U.S. based personnel working under cloud computing contracts.

Financial Audit and Related Work

Fiscal Year 2014 Federal Information Security Management Act (FISMA) Independent Evaluation Report, EVAL 2015-9/FA-14-101-7 (May 6, 2015)

(<http://oig.pbqc.gov/pdfs/FA-14-101-7.pdf>)

FISMA requires that agencies annually perform an independent evaluation of the effectiveness of information security program and practices and to report results to OMB. These evaluations are intended to independently assess whether the agencies are applying a risk-based approach to their information security programs and the information systems that support the conduct of agency missions and business functions.

We out-sourced the FY 2014 evaluation to our independent public accounting firm CliftonLarsonAllen, LLP, who performed this work under our guidance and oversight. We observed some improvement in PBGC's deployment of technology, hiring of key staff, and implementation of new policies. Overall, however, we found that information security remained a challenge for PBGC management. Long-standing security weaknesses were unresolved and management continued to push out timelines for completion of corrective action plans. This occurred because in prior years PBGC's entity-wide security program lacked focus and a coordinated effort to adequately mitigate certain information system security control deficiencies. Additionally, PBGC's documentation of corrective action taken and evidence to support closure of a recommendation has been weak. Quality controls were inadequate to ensure PBGC could demonstrate remediation of security weaknesses before recommending

closure to the OIG. As a result of these weaknesses, PBGC is limited in its ability to ensure the confidentiality, integrity, and availability of information. In FY 2014, we issued a total of 62 new audit recommendations to address information security deficiencies. Management agreed to these recommendations.

FY 2014 Audit of PBGC'S Compliance with the Implementation of the Improper Payments Information Act (IPIA), AUD 2015-10/PA-15-106 (May 14, 2015)
(<http://oig.pbgc.gov/pdfs/PA-15-106.pdf>)

The objective of this audit was to assess PBGC's compliance with the requirements of the IPIA, as amended. IPIA requires agencies to perform an assessment to identify programs or activities with a risk of significant improper payments. For programs identified with a significant risk, OMB guidance requires that agencies obtain a statistical estimate of the level of improper payments for each payment stream and include such estimates in the accompanying materials to the agency's annual financial statements. Additionally, IPIA requires agencies to report the actions it took to reduce the improper payments.

PBGC has identified the following major payment streams:

1. benefit payments to participants in "final pay" status for plans trusted by PBGC under Title IV of ERISA (Benefit Payments),
2. payments to contractors for goods and services, including government credit card transactions (Payments to Contractors),
3. financial assistance loans to insolvent multiemployer plans that are unable to pay participant benefits when due and reasonable administrative expenses of the plan (Multiemployer Plan Financial Assistance Payments), and
4. payments made to Federal employees, including payroll and travel reimbursements (Payments to Federal Employees).

In previous fiscal years, PBGC concluded that none of its payment streams were susceptible to significant improper payment risk. PBGC now performs risk assessments of its payment streams using a rotational strategy based on a three-year cycle. For FY 2014, PBGC assessed payments to Federal employees and multiemployer plan financial assistance payments.

We concurred with PBGC's assessment that payments to Federal employees were not susceptible to a significant level of improper payment. We could not concur with PBGC's assessment regarding multiemployer plan financial assistance payments. We found that an insufficient number of multiemployer financial assistance loans may have been sampled to support PBGC's statistical projections. This occurred because PBGC did not have a policy for minimum sample sizes for IPIA assessments. We recommended that PBGC reassess the financial assistance loans as part of the FY 2016 improper payments assessment and establish a policy on minimum sample sizes. Management agreed with both recommendations.

Ongoing Performance Audits

Governance of Internal Controls

The Federal Managers Financial Integrity Act of 1982 requires (1) the Comptroller General to prescribe standards for internal control for the Federal government, (2) OMB to issue guidelines for the evaluation of internal control, and (3) the heads of Federal agencies to sign annual public assurance statements disclosing any material weaknesses.

Internal control helps an organization:

- Run its operations efficiently and effectively,
- Report reliable information about its operations, and
- Comply with applicable laws and regulations.

Additionally, internal control provides the head of a Federal agency with the information necessary to sign the annual public assurance statements disclosing any material weaknesses.

In FY 2014, the PBGC received its sixth consecutive adverse opinion on internal control. In its annual internal control report, the independent public accountants identified three material weaknesses and two significant deficiencies.

To provide insight on the possible causes of the long-standing internal control issues at PBGC, we initiated an audit of the 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.

Verification of Benefit Computations in PBGC's Multiemployer Insurance Program

A multiemployer pension plan covers union workers of unrelated employers usually in the same or related industries. When a multiemployer plan fails or can no longer meet its pension benefit obligations, PBGC provides financial assistance in the form of a loan to cover the cost of benefits and reasonable administrative expenses. In FY 2014, PBGC paid \$97 million in financial assistance to 53 multiemployer plans covering the benefits of 52,000 retirees. PBGC's financial assistance to multiemployer plans continues to increase and plan insolvencies threaten PBGC's multiemployer insurance fund. The objective of this audit is to review the accuracy of the benefit calculations and payments made by insolvent plans receiving financial assistance from PBGC. We engaged a public accounting firm with actuarial expertise in pension benefits to recalculate the benefits. We completed the analysis of 3 of 4 plans and are completing the analysis of the final plan. We plan to issue a draft report within the next reporting period.

Ongoing Financial Audit and Other Related Work

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2015 and 2014 Financial Statements

We are conducting our FY 2015 financial statement audit whose purpose is to express an opinion as to whether the PBGC financial statements are fairly presented in all material respects and prepared in accordance with prescribed accounting principles. OIG contracts with the independent public accounting firm CLA to conduct the financial statements audit on our behalf, subject to OIG oversight. CLA will audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by PBGC as of and for the years ended September 30, 2015 and 2014.

FY 2015 Federal Information Security Management Act (FISMA) Submission to the Office of Management and Budget and the Independent Evaluation Report

We will be completing our annual evaluation of PBGC's information security programs and practices and reporting the results to OMB. We will follow up the OMB report with a narrative evaluation report of deficiencies found during our FISMA review with corrective action recommendations.

FY 2015 Vulnerability Assessment and Penetration Testing Report

As part of the annual financial statement audit, OIG will oversee the vulnerability assessment and penetration test conducted by our independent public accounting firm CLA. We will brief the results and issue a non-public report to management in the first quarter of FY 2016.

Investigative Activities

During this reporting period, we reduced our case backlog from 67 to 26 complaints and investigations. We presented seven cases for prosecution and four were accepted.

Indictment for Theft of Deceased Mother's Pension Benefits

In July 2015, a New York woman was indicted in the Northern District of New York on one count of Theft of Government Money for theft of more than \$37,000 in PBGC pension payments by assuming the identity of her deceased mother. A PBGC Field Benefit Administration Office referred this matter to us after identifying pension payments to a deceased participant after her date of death using the Social Security Death Master File. We found that the mother's death was never reported to PBGC and several documents were submitted to PBGC after the mother's date of death bearing the mother's forged signature.

Exoneration in U.S. Treasury Wage Garnishment Dispute

In 2014, PBGC discovered that it had been erroneously paying monthly pension benefits to a participant after his date of death. PBGC sent a notice of overpayment letter and request for repayment to the individual they believed had endorsed the pension checks. After receiving no reply, PBGC referred the delinquent debt to the U.S. Treasury Department's Financial Management Service for administrative wage garnishment. After the wage garnishment went into effect, the individual contacted PBGC and his Congressional representative claiming that he did not endorse the checks and this was a case of mistaken identity.

We investigated the matter and determined that this individual did not endorse the checks. They were endorsed by a relative with a similar name. Following our investigation, PBGC lifted the administrative wage garnishment. We referred the matter back to PBGC to pursue collection efforts against the relative.

Other OIG Statutory Reporting

Access to Information

Section 6(a) of the Inspector General Act grants the Inspector General access to all agency records, information, or assistance when engaged in an investigation or audit. Whenever access to requested records, information, or assistance is unreasonably refused or not provided, the Inspector General must promptly report the denial to the agency head. In addition to the IG Act, Senator Grassley has asked each Inspector General to report semiannually whether access to requested information has been denied or impeded.

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.

Review of Proposed Statutory and Regulatory Changes

Under the Inspector General Act, the OIG is responsible for reviewing PBGC-proposed changes to laws and regulations. We reviewed and provided comments on four regulatory actions this period:

- A proposed rule revising the annual financial and actuarial information reporting requirements for plan sponsors and to establish reporting waivers for certain plans under ERISA § 4010;
- A final rule establishing new requirements that make the sponsor risk-based safe harbor more flexible, make the funding level for satisfying the well-funded plan safe harbor lower and tied to the variable-rate premium, and add public company waivers for five events under ERISA § 4043;
- A proposed rule requiring multiemployer plans to require electronic filing of certain multiemployer notices as part of on-going implementation of the Governmental Paperwork Elimination Act; and
- An interim final rule prescribing the application process and notice requirements for partitions of eligible multiemployer plans to implement section 122 of Multiemployer Pension Reform Act of 2014 and ERISA § 4233.

Peer Review

Audit

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 at http://oig.pbgc.gov/pdfs/PBGC_Peer_Review_Report_2013.pdf.

The National Science Foundation OIG is scheduled to conduct our audit peer review in FY 2016.

Investigations

The Office of Investigations is currently conducting a peer review of the Government Printing Office. Work on the peer review is expected to be completed by November 2015, and a report issued in December 2015.

APPENDICES

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Section 5(a)(7)	Summary of each particularly significant report.	7-23
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	22
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	22
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.	None
Section 5(a)(11)	Significant revised management decisions.	15
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	15
Section 5(a)(14)	Results of peer review.	16
Section 5(a)(15)	Outstanding recommendations from any peer conducted by another OIG.	16
Section 5(a)(16)	Any peer reviews performed of another OIG.	16

SUMMARY OF AUDIT AND INVESTIGATIVE ACTIVITIES

For the Six-Month Period Ending September 30, 2015

Audits/Evaluations Issued		
Number of Reports	3	
Number of Recommendations	27	
Management Decisions		
Open Recommendations Beginning of Period	187	
Opened This Period	27	
Closed This Period	51	
Open Recommendations End of Period	163	
Reports with Open Recommendations End of Period	29	
Investigative Workload	Investigations	Complaints¹
Pending Beginning of Period	39	28
Opened	29	51
Closed	46	75
Pending End of Period	22	4
Judicial Referrals	Federal Prosecutors	Local Prosecutors
Presented	5	2
Accepted	2	2
Declined	3	0
Criminal Actions²		
Indictments	1	
Convictions	0	
Financial Recoveries²		
Court Ordered Fines, Penalties, and Restitution	\$0	
Administrative Actions²		
Terminations	0	
Suspensions	0	
Oral or Written Reprimand	0	

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

We erroneously reported that our pending complaints at the end of the Semi-Annual Period ending March 31, 2015, was 23. The pending complaints at the end of the period should have been 28.

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

**PREVIOUSLY REPORTED SIGNIFICANT
RECOMMENDATIONS FOR WHICH CORRECTIVE ACTION
HAS NOT BEEN TAKEN¹**

For the Six-Month Period Ending September 30, 2015

Report Number, Report Title and Date Issued	Number of Significant Recommendations ²	Significant Problems and Deficiencies	Summary of Significant Recommendations
2008-02/FA-0034-2 Limited Disclosure Report on Internal Controls-PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007	7	Access Controls	PBGC needs to mitigate the systemic issues related to information access controls
and 2010-02/FA-09-64-2 Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2009 and 2008 Financial Statements Audit 11/12/2009	3		
and 2014-03/FA-13-93-2 Report on Internal Controls Related to the Pension Benefit Guaranty Corporations' Fiscal 2013 and 2012 Financial Statements Audit 11/15/2013	1		
and 2014-09/FA-13-93-7 Fiscal Year 2013 Federal Information Security Management Act Final Report 3/21/2014 transferred to 2015-03/FA-14-101-3 Report of Internal Controls related to the PBGC's Reporting for FY 2014 and FY 2013 Financial Statements Audit 11/14/2014	6		

¹ Includes recommendations for which management submitted a request for closure prior September 30, 2015 but such request had not been reviewed and closed by OIG prior to the end of this reporting period.

² Count has been expanded to include all Material Weaknesses and Significant Deficiencies in a report.

Report Number, Report Title and Date Issued	Number of Significant Recommendations*	Significant Problems and Deficiencies	Summary of Significant Recommendations
2012-05/PA-10-72 PBGC Processing of Terminated United Airlines Pension Plans was Seriously Deficient 11/30/2011	4	Systemic errors and omissions in audits of terminated pension plans	PBGC needs to strengthen the post-trusteeship audit process
2014-08/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.
2015-03/FA-14-101-3 Report of Internal Controls related to the PBGC's Reporting for FY 2014 and FY 2013 Financial Statements Audit 11/14/2014	14	Financial Reporting	Lack of Controls over the Reporting of Premium Income, the manual processes and the monitoring controls over Non-Commingled Assets
2015-03/FA-14-101-3 Report of Internal Controls related to the PBGC's Reporting for FY 2014 and FY 2013 Financial Statements Audit 11/14/2014	10	Present Value of Non-recoverable Future Financial Assistance	Lack of a robust quality control review of the PV NRFFA valuation process.

RESULTS OF REPORTS ISSUED

For the Six-Month Period Ending September 30, 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.	3			
Fiscal Year 2014 Federal Information Security Management Act Independent Evaluation Report		\$0	\$0	\$0
FY 2014 Audit of PBGC's Compliance with the Implementation of the Improper Payments Information Act		\$0	\$0	\$0
PBGC Began Developing Methods for Oversight and Administration of Cloud Computing Service Providers - Work is Needed for the Expected Increase in Externally Hosted Systems		\$0	\$0	\$0
Total (Add A. & B.)	4			
C. For which a management decision was made during the reporting period.	4	\$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.	0	\$0	\$0	\$0
E. For which no management decision was made within six months of issuance.	1	\$0	\$0	\$0

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If you want to confidentially report or discuss any instance of misconduct, fraud, waste, abuse, or mismanagement involving PBGC programs and operations, please contact the PBGC 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 34177
Washington, DC 20043-4177