

# **Semiannual Report to Congress**

**October 1, 2015 – March 31, 2016**



## **Office of Inspector General Pension Benefit Guaranty Corporation**

**SARC No. 54**

# 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

April 30, 2016

Board of Directors  
Pension Benefit Guaranty Corporation

I am pleased to present this Semiannual Report summarizing the activities of our office for the period October 1, 2015 through March 31, 2016.

Our office's oversight efforts focused on high-risk areas including internal control, valuation of pension plan benefits and related liabilities, and information security. We continued to observe some improvements in the Corporation's information security program during this period; however, sustained commitment is required to remediate long-standing deficiencies and to adapt to the changing threat environment. We also continued to monitor management's effort and progress in other areas. The number of open audit recommendations decreased from 163 to 100, the lowest number of open recommendations in more than 5 years.

In carrying out our responsibilities, we completed six audit and evaluation reports, two risk advisories—one was related to our audit work and the other was based on our investigative efforts—and responded to one Congressional request. Our investigative activities resulted in securing a guilty plea from a defendant in a case involving the theft of pension benefits and a criminal complaint being filed in another, unrelated case.

Our audit and investigative work reflected our commitment to keep the Congress, the Board, and the Corporation fully informed in a way that is transparent to both our internal and external stakeholders. I commend and thank our hardworking team of auditors and investigators for their efforts and dedication to our important mission. I also want to thank the Board and PBGC Director Thomas Reeder for their ongoing support of our office. I look forward to continuing to work with Director Reeder and his team to preserve the promise of a secure retirement for 40 million American workers whose pensions PBGC insures.

Respectfully submitted,



Robert A. Westbrook  
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

CFR	Code of Federal Regulations
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIO	Chief Information Officer
CISO	Chief Information Security Officer
CLA	CliftonLarsonAllen, LLP
COR	Contracting Officer's Representative
EBSA	Employee Benefits Security Administration
ERISA	Employee Retirement Income Security Act of 1974
ERM	Enterprise Risk Management
FISMA	Federal Information Security Modernization Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
IPIA	Improper Payments Information Act
IPVFB	Integrated Present Value Future Benefits
IT	Information Technology
MAP-21	Moving Ahead for Progress in the 21 <sup>st</sup> Century Act
ME	Multiemployer
MPRA	Multiemployer Pension Reform Act of 2014
OBA	Office of Benefits Administration
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
PDA	Plan Data Analysis
PII	Personally-Identifiable Information
PIV	Personal Identity Verification
PMP	Participant Management Program
PVFB	Present Value of Future Benefits
RMO	Risk Management Officer
SARC	Semiannual Report to Congress
STCD	Standard Terminations Compliance Division
US-CERT	United States Computer Emergency Readiness Team

# Executive Summary

During the period October 1, 2015 through March 31, 2016, we:

- closed 86 open audit recommendations by dedicating additional OIG resources to audit follow-up after receipt of a record number of recommendation closure requests from management during FY 2015, bringing the total number of open recommendations down to a 5-year low of 100. (Page 24)
- issued the financial statement audit and its related work, including:
  - **PBGC’s Fiscal Years 2015 and 2014 Financial Statements.** The financials were presented fairly, in all material respects, in conformity with U.S. GAAP. However, PBGC had an adverse opinion on internal control resulting from a material weakness over the present value of future benefit liability. PBGC made progress resulting in downgrading of two previously reported material weaknesses to significant deficiencies regarding their entity-wide security program planning and management, and access controls and configuration management. (Page 10)
  - **FY 2015 Federal Information Security Modernization Act.** PBGC made progress in addressing conditions reported in previous years by mitigating weaknesses in PBGC’s entity-wide IT security program, and access controls and configuration management. (Page 12)
  - **IT Vulnerability Assessment and Penetration Testing for FY 2015.** PBGC’s information security infrastructure was tested for technical weaknesses. Critical and high severity vulnerabilities increased from prior years, and the agency must improve its preparation for software end-of-service-life transition. (Page 12)
- issued a Risk Advisory relating to management’s oversight of two multiemployer expert consultant contracts, which is part of our on-going review of the multiemployer program. (Page 14)
- responded to a Congressional request for a review of the timing and completeness of PBGC’s asset evaluation and benefit determinations for the Delphi Salaried Plan. We found opportunities for PBGC to improve communications with plan participants, which PBGC promptly addressed. (Page 18)
- obtained a guilty plea in a pension benefit fraud case and assisted in securing a criminal complaint in a matter involving threats against PBGC employees. (Page 20)

# 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 more than 40 million American workers in nearly 24,000 private sector defined benefit plans. The Corporation receives no general tax revenues. It manages about \$88 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 2015, the Corporation paid \$5.6 billion in monthly retirement benefits to nearly 826,000 retirees in some 4,700 single-employer plans and it paid \$103 million in financial assistance to 57 multiemployer plans.<sup>1</sup>

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 2015, PBGC's net deficit in the combined programs was \$76 billion with exposure of \$238 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.

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<sup>1</sup> Figures contained in this paragraph are based on those found in PBGC's 2015 Annual Report.

## 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 Audit, 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 Chief 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

Information security remains a top management challenge. 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. New leadership, established in 2015, continued to provide the direction and guidance needed to implement a coherent framework of security controls to protect PBGC's information from unauthorized access, modification, and disclosure.

Our FY 2015 financial statement audit documented the improvements the CIO and CISO have made, as two previously identified material weaknesses relating to information security were downgraded to significant deficiencies. One related to entity-wide security program planning and the second involved access controls and configuration management.

Management's efforts also resulted in requests for closure of 38 audit recommendations within IT. Thirty recommendations were closed. Eight recommendations were not closed and were returned to management for additional documentation or clarification.

As we noted in SARC 53, PBGC reported a *higher* number of internally reported security incidents. This number increased from an implausible zero in 2013 to more than 50 in FY 2015. Thus far for FY 2016, PBGC has reported 37 incidents to US-CERT. These incidents were detected through the use of more advanced technology, stronger processes, additional staff with specialized IT security experience, and a greater commitment to transparency and accountability. Even though PBGC made some positive progress in identifying incidents, the FY 2015 FISMA audit found that PBGC had not fully implemented its automated log management, data collection, storage and visualization tool, all of which would help to improve its monitoring of the status of IT security and security events. Further, PBGC had not implemented network scans running at elevated privileges for all of PBGC's systems, which would allow access to and assess protected resources. Our FISMA report recommended PBGC make improvements in these, among others, two areas.

Continued focus and efforts are needed to ensure further improvements in PBGC's IT security posture so that it can remain agile in the rapidly changing threat environment. The Corporation also needs to swiftly adopt the latest federal security standards, including NIST Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* and Homeland Security Presidential Directive-12 (HSPD-12). Though HSPD-12 was issued in 2004, PBGC is not yet fully compliant. OMB's latest guidance established a goal that by December 31, 2015, 100 percent of privileged and 85 percent of non-privileged users who are required to obtain a PIV card should use the credentials on the PIV card to access

federal IT systems.<sup>2</sup> PIV cards allow for the efficient authentication of an employee's identity and reduce the risk of identity fraud, tampering, counterfeiting, and exploitation. Management reported that as of March 31, 2016, 92.3 percent of its privileged and 35 percent of its non-privileged users are accessing systems with their PIV cards. They reported that implementation has been delayed for two reasons. First, the majority of privileged users are contractors and all of the requirements for issuance of PIV cards to contractors were not incorporated into existing contracts. Second, for the non-privileged users, management has not been able to reach agreement with the bargaining unit employees. PBGC's goal for meeting OMB's target is May 27, 2016.

## **Modernization of PBGC's Key Benefits-Related Information Technology Systems**

PBGC relies upon obsolete technology and legacy information systems to perform its essential service of ensuring retirees receive their correct pension amount and PBGC's liability for future benefits is accurately reported in the annual financial statements. In the FY 2015 financial statement audit, the OIG's contracted independent accounting firm identified the Office of Benefits Administration's (formerly Benefits Administration and Payment Department) controls over the present value of future benefit liability as a material weakness.

The Participant Management Program is the consolidation of the Integrated Present Value Future Benefit, Benefits Administration, Benefit Calculation and Valuation, and other interrelated IT systems. Reporting and budgeting for these systems were consolidated to bring them under one umbrella because many are dependent upon one another to calculate and pay benefits to participants. IPVFB calculates the present value of the future liabilities for pension payments to retirees that is reported in PBGC's financial statements.

PBGC continues to modernize its PMP IT systems, some of which are the subjects of a number of open audit recommendations. PBGC management is projecting completion of IPVFB modernization and closure of all of the open IT audit recommendations as late as December 31, 2018. With PBGC senior management's motivation to resolve the material weakness, they have put added emphasis on moving up the target resolution dates for some of the OIG recommendations.

Transparency of the cost of individual projects that make up PMP is a concern. Based on the information PBGC submitted to OMB and which is published on *itdashboard.gov*, FY 2015 estimated project costs for the consolidated PMP was approximately \$25 million, which includes spending on contractors and utilization of PBGC's full-time employees. The estimated budget for FY 2016 is \$33.75 million. Despite the critical nature of the PMP modernization project and the millions of dollars invested, there is not enough detailed information about the

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<sup>2</sup> OMB Memorandum M-16-04, *Cybersecurity Strategy and Implementation Plan (CSIP) for the Federal Civilian Government*, dated October 30, 2015.

individual systems' project costs in the public domain to provide for meaningful public accountability.

We continue to identify this modernization effort as a top management challenge and will provide oversight in light of the critical nature of the systems, PBGC's history of challenges in integrating its financial management systems, and its reliance on professional services 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 resulted in failing 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 accepted a series of poor quality and mistake-ridden contracted audits. In responding to a 2014 Congressional request, we reported that 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, 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, OBA oversees benefit administration activities for terminated defined benefit plans through 5 field offices staffed with about 255 contractor employees. The department also has about 110 contract actuaries who provide actuarial valuation of benefits, and about 67 contract auditors who support plan asset evaluations. Despite the critical services professional contractors provide to PBGC, there is little information about these contracts in PBGC public documents or on its website to allow for meaningful public accountability.

We identified transparency and accountability of professional services contracting as a top management challenge because of PBGC's history regarding contractor oversight and its heavy reliance on contract professional staff. In February 2016, OIG issued a Risk Advisory regarding our observations on management's oversight of two multiemployer expert consultant contracts (see page 14). We commenced a review of these contracts in October 2015, after information was brought to our attention about management's monitoring and oversight of these contracts.

## In Focus

### Enterprise Risk Management and the Changing Government Landscape

Significant changes are taking place in the federal sector in the area of governance, risk, and control. The GAO's new Standards of Internal Control (known as the Green Book) became effective for federal agencies beginning FY 2016. The new Green Book adopts The Committee of Sponsoring Organizations of the Treadway Commission's 2013 Internal Control-Integrated Framework. In addition, the OMB is working on an update to its guidance, Circular A-123, which includes detailed guidelines for the evaluation of systems of internal control, and will emphasize the need to manage risk and internal control in both financial and nonfinancial areas. The new A-123 is expected to require federal agencies to adopt enterprise risk management and may simplify the annual management assurance statements required under the Federal Managers' Financial Integrity Act.

With the new Green Book and A-123 update, there is some uncertainty about how Inspector Generals should interact in the ERM space so that IGs can add value while maintaining independence.

Our office has been proactive in seeking ways to balance independence with positive engagement as PBGC adopts the new Green Book, plans for the updated A-123, and implements the 2012 Congressionally mandated establishment of the Risk Management Officer position (see "Status" box). We previously identified various internal control deficiencies that resulted in PBGC receiving seven consecutive adverse opinions on internal control. To provide leadership to promote efficiency and effectiveness, we targeted audit work on the governance of internal control to identify gaps among the components of internal control. We issued risk advisories to aid management in the assessment of risk, and

#### ***Status of 2012 Requirement for PBGC to Establish a Risk Management Officer***

Under MAP-21, PBGC is required to establish "a risk management officer [who]...shall coordinate the risk management efforts of the corporation."

Since we issued our last SARC, PBGC management reports it has made the following progress:

- designated an acting RMO
- created a Risk Management Council, with members selected by the Executive Management Committee
- issued a Risk Management Council Charter

Despite this progress, to meet the requirements established in 2012 under MAP-21, PBGC needs to move swiftly to appoint a permanent RMO, designate the placement of the RMO within the PBGC corporate structure, and define the RMO's responsibilities and authorities.

issued a white paper on ERM<sup>3</sup> to help champion the establishment of an ERM program. We have also given presentations to the Director, the Advisory Committee, and PBGC staff on ERM and where our office can add value while ensuring independence.

OIG auditors do not own risks. We are responsible for keeping the Congress, the Board, and management informed about fraud and other risks, and management should consider the results of OIG audits, evaluations and investigations as it identifies and analyzes risks. Once PBGC's ERM program matures, we look forward to evaluating the design and operating effectiveness of the program and its reporting of key risks.

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<sup>3</sup> White Paper, Enterprise Risk Management at PBGC, dated September 10, 2015. (<http://oig.pbgc.gov/pdfs/ERM-MAR-9-10-15.pdf>)

# **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 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 sessions. In addition, we communicate with the Board Representatives during 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 reiterated to PBGC leadership the importance of establishing a risk management officer and ERM program. Such a program should result in a lasting reduction in open audit recommendations, improvements in the internal control environment, and fulfill the requirements the Congress established under MAP-21.

In addition, OIG leadership met regularly (typically monthly) with “C” level leaders and department directors to monitor and review operations and obtain status on corrective actions to address open audit recommendations.

## Financial Audit and Related Work

Our office contracted with CliftonLarsonAllen LLP, an independent public accounting firm, to perform the annual audit of the financial statements and related work, including information technology audit and evaluation work to respond to the annual Federal Information Security Modernization Act requirements and to conduct a vulnerability assessment and penetration test of PBGC's IT systems. We provided oversight of CLA's work and the reports described below.

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

(AUD-2016-2 /FA-15-108-2, issued November 13, 2015)

<http://oig.pbgc.gov/pdfs/FA-15-108-2.pdf>

In the annual financial statement audit of the single-employer and multiemployer program funds administered by the PBGC as of and for the years ended September 30, 2015 and 2014, we reported:

- The financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.
- PBGC did not have effective internal control over financial reporting and compliance with laws and regulations and its operations as of September 30, 2015, resulting in an adverse opinion on internal control. The audit found:
  - Internal control weaknesses in PBGC's program and operations resulted in the continued existence of a material weakness regarding controls over the present value of future benefit liability.
  - Progress by the Corporation resulted in two previously reported material weaknesses regarding (1) the entity-wide security program planning and management, and (2) access controls and configuration management being reduced to significant deficiencies. A new, third significant deficiency regarding lack of controls over premium income was reported.
- Testing of PBGC's compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed one instance of noncompliance with 29 CFR Section 4044.41(b), which states: "Plan assets shall be valued at their fair market value, based on the method of valuation that most accurately reflects such fair market value." This instance of non-compliance was first reported in FY 2011 and will remain until the revaluing of assets associated with prior plan terminations are completed.

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

(AUD-2016-3 /FA-15-108-3, issued November 13, 2015)

<http://oig.pbgc.gov/pdfs/FA-15-108-3.pdf>

We issued this report to provide greater detail of the conditions underlying the adverse opinion on internal control over financial reporting found in the internal control section of the combined Independent Auditor's Report described above. PBGC made significant progress in addressing conditions reported in previous years – we closed 50 recommendations, 16 of which had been open for 6 years or more. Such progress reduced the deficiencies associated with the previously reported material weaknesses in (1) PBGC's entity-wide security program and (2) access controls and configuration management, which resulted in a change in classification to significant deficiencies. However, PBGC continued to revise other planned corrective actions needed to correct long-standing control failures. Further, PBGC revised some of the corrective action due dates by one year or more. These revisions may be necessary, but impede PBGC's progress to effectively remediate the remaining control deficiencies. Specifically, we found:

- Internal control weaknesses in PBGC's benefits administration program and operations resulted in the continued existence of a material weakness regarding controls over the present value of future benefit liability. The PVFB liability represents the estimated liability for future benefits that PBGC is, or will be, obligated to pay participants of covered single-employer and certain multiemployer pension plans. PBGC made progress in their remediation efforts to correct long-standing deficiencies related to controls over the calculation of the PVFB liability. Some of these efforts included an organizational restructuring and refinements to operating divisions within OBA and personnel changes in key management positions. Also, OBA made certain enhancements to business processes and procedures to address prior year control deficiencies. However, the results of our FY 2015 testing revealed controls over the calculation of the PVFB liability require management's continued focus.
- The Corporation's corrective actions resulted in closure of 17 recommendations and reduced the risk level of the (1) entity-wide security program and (2) access controls and configuration management from material weaknesses to significant deficiencies. PBGC improved communication on the status and direction of IT security and introduced new policies, processes, procedures, and technology to effectively manage information security risks. PBGC's new IT security leadership implemented various tools and processes to establish a more coherent environment for implementing access control and configuration management security controls at the root cause level.
- A third significant deficiency was reported based on the lack of sufficient controls over premium income.

This report has 28 recommendations, of which 5 are new and 23 are carried over from prior years' audits.

***Pension Benefit Guaranty Corporation's Fiscal Year 2015 Financial Statement Audit Management Letter Report***

*(AUD-2016-6/FA-15-108-6, issued March 04, 2016)*

<http://oig.pbgc.gov/pdfs/FA-15-108-6.pdf>

The management letter reports on certain matters related to PBGC's internal control and operations identified in the financial audit that, while significant, were not of sufficient magnitude to impact the financial statement opinion and were not included in the report on internal control. We also reported on the status of prior years' management letter recommendations. This year's report highlighted on-going and new control issues in, for example, the adequacy of the computation methodology for non-recoverable future financial assistance to multiemployer plans, and the methodology to value non-commingled assets from terminated single-employer plans.

PBGC made significant progress in completing corrective actions that resulted in closure of 34 prior year recommendations. We issued 4 new recommendations, resulting in 20 open management letter audit recommendations. PBGC management agreed with the recommendations and provided planned corrective actions and estimated completion dates.

***Fiscal Year 2015 Federal Information Security Modernization Act Submission to the Office of Management and Budget***

*(LTR 2016-4/FA-15-108-4, issued November 13, 2015)*

<http://oig.pbgc.gov/pdfs/FA-15-108-4.pdf>

Under OIG oversight, CLA conducted the annual assessment of the effectiveness of PBGC's IT security program and practices to determine compliance with FISMA requirements and related information security policies, procedures, standards and guidelines. We submitted the mandated template report to OMB, noting PBGC made progress in addressing conditions reported in previous years and referring to the internal control report (described above) for details in mitigating weaknesses in PBGC's entity-wide IT security program and access controls and configuration management.

The letter forwarding our template assessment is publicly available; the IT assessment is not.

***Fiscal Year 2015 Vulnerability Assessment and Penetration Testing***

*(EVAL-2016-1/FA-15-108-1, issued December 11, 2015)*

<http://oig.pbgc.gov/pdfs/FA-15-108-1.pdf>

During the financial statement audit, we contracted with CLA to assess PBGC's information security infrastructure for 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. Critical and high severity vulnerabilities increased from prior years. Moreover, the agency must better prepare for software end-of-service-life transition. This report included six recommendations, all of which were agreed to by management.

We determined this report is for official use only. The report detailing the vulnerability assessment has been redacted in its entirety because it contains privileged and confidential information that, if disclosed, would cause further vulnerability.

***Fiscal Year 2015 Federal Information Security Modernization Act Report***

*(EVAL 2016-7 / FA-15-108-7, issued February 19, 2016)*

<http://oig.pbgc.gov/pdfs/FA-15-108-7.pdf>

This narrative report is a follow-up to our FY 2015 FISMA independent evaluation template report submitted to OMB (described above) to provide findings and recommendations related to PBGC's information security program.

PBGC made significant progress in addressing the security weaknesses noted in prior years. Prior years' information security material weaknesses have been downgraded to significant deficiencies in the FY 2015 financial statement internal control report (described above); however, much work remains to continue progress in correcting these deficiencies. We reported 15 FISMA findings with 25 recommendations. Our findings included areas of managing continuous monitoring, configuration, identity and access incident response and reporting, and risk management. In addition to those in this report, there were 9 FISMA-related recommendations reported in the Corporation's FY 2015 internal control report.

## Performance Audits, Evaluations, and Reviews

### ***Risk Advisory on Monitoring and Oversight of Multiemployer Expert Consultant Contracts***

*(issued February 19, 2016)*

<http://oig.pbgc.gov/pdfs/MAR-2-19-16.pdf>

This Risk Advisory reported our observations relating to management's oversight of two multiemployer expert consultant contracts and is part of our on-going review of the multiemployer program.

The two multiemployer expert consultants are both former PBGC employees who returned as contractors. They play a significant role in performing Plan Data Analyses to prepare the contingency list of "probable" and "reasonably possible" insolvent plans used to estimate PBGC's liability, among other important activities. Knowledgeable PBGC staff stated that PBGC "relies heavily" on the judgments of these contractors. Both contracts were scheduled to terminate in March 2016.

We identified the following risks in management's monitoring and oversight of these two multiemployer expert consultant contracts:

- 1. Succession planning for technical expertise.** PBGC relied upon these technical consultants who gained their expertise while they were PBGC employees. Little effort has been made to formally train replacements to perform the PDA or to formally document these experts' analysis and methods so their knowledge can be transferred to Federal employees.
- 2. Contracting Officer's Representative monitoring of contract performance.** The COR appears to have become largely responsible for just invoice processing, and this limited role makes it virtually impossible for him to effectively serve as the "eyes and ears of the Contracting Officer." As a result, PBGC is at risk of not being able to timely identify non-compliance with contract provisions and other legal requirements. Program offices must appoint a COR who has competencies to effectively monitor performance of the specific contract. Monitoring is a key control to ensure contractors are meeting all contract requirements, including quality and timeliness of deliverables. Monitoring includes furnishing mandatory quarterly reports to the Administrative Contracting Officer and raising issues of potential contract non-performance.
- 3. Procurement Department oversight of COR and contract performance.** The Procurement Department must ensure that quarterly reports are provided by CORs and must ensure that annual reviews of COR contract files are designed and operating effectively so the Procurement Department is alerted of potential COR issues.

## Ongoing Performance Audits

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

On March 31, 2016, we issued a draft audit report on the Effectiveness of PBGC's Governance of Internal Control, after issuing a discussion draft on February 29, 2016, and incorporating comments as appropriate. The final report will be issued soon.

Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. For the past seven consecutive years, PBGC has received an adverse opinion on internal control from OIG's independence public accountants as the result of material weaknesses and significant deficiencies found in the financial statements audit. Our audit identified gaps in PBGC's governance of the internal control environment.

### ***Verification of Benefit Computations in PBGC's Multiemployer Insurance Program***

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 2015, PBGC paid \$103 million in financial assistance to 57 multiemployer plans covering the benefits of 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 perform certain agreed-upon procedures to recalculate a sample of participants' benefits from five ME plans receiving financial assistance. We anticipate issuing a draft report soon.

### ***Announcement of Review of Administrative Expenses for Certain ME Plans***

<http://oig.pbgc.gov/pdfs/ANNREVIEWMEAdminExpenses20151117.pdf>

On November 17, 2015, we announced we were conducting a review of two ME plans' administrative expenses that PBGC pays as part of financial assistance to the plans. This was a follow-on in the series of limited-scope audits/evaluations of the ME program.

The third party administrator of these two plans was also appointed as sole trustee; he was not previously affiliated with the plans as a trustee. This lack of separation of duties raised issues of fiduciary responsibilities and potential prohibited transactions under ERISA.

We plan to issue a Risk Advisory to management to report observations from our work regarding these two plans. As a result of this limited review of administrative expenses, we also have initiated an audit (see below).

***Announcement of Audit of PBGC's Compliance with the Improper Payments Information Act***

<http://oig.pbgc.gov/pdfs/ANNAUDITFY2015PIA-PA-16-109-20151216.pdf>

On December 16, 2015, we announced an audit of PBGC's compliance with requirements of the Improper Payments Information Act. The Act requires OIGs to assess their agency's compliance with certain statutory mandates relating to payments, using OMB Circular A-123, Appendix C guidance. In accordance with OMB guidance, we will issue our report no later than May 13, 2016.

***Announcement of Evaluation of PBGC's Compliance with the Cybersecurity Act of 2015***

<http://oig.pbgc.gov/pdfs/ANNEVALCyberSIT-16-111-20160309.pdf>

On March 9, 2016, we announced an evaluation of PBGC information systems that provide access to personally-identifiable information. As part of the FY 2016 omnibus funding bill, Congress passed the Cybersecurity Act of 2015 which requires OIGs to report on their agency's logical access controls, digital rights management, data loss prevention, and forensic and visibility capabilities related to covered systems.

***Announcement of Audit of Insolvent ME Pension Plans' Administrative Expenses***

<http://oig.pbgc.gov/pdfs/ANNAUDITMEAdminExp20160329.pdf>

On March 29, 2016, we announced an audit to determine if the Multiemployer Program Division ensures administrative expenses paid to insolvent ME plans receiving financial assistance are reasonable, necessary, and adequately supported. This is part of our series of on-going reviews of the multiemployer program.

***Announcement of Audit of Standard Terminations Compliance Division***

<http://oig.pbgc.gov/pdfs/ANNSURVEYStdTerm20160331.pdf>

On March 31, 2016, we announced an audit of the STCD within the Office of Negotiations and Restructuring to determine whether STCD ensures participants receive the full protection of the law when their pension plan enters into the standard termination process. ERISA Title IV provides that covered defined benefit pension plans that are fully funded to provide promised benefits to participants may apply to PBGC to terminate the plan through the standard termination process.

## Ongoing Financial Audit and Other Related Work

### ***Announcement of Financial Statements Audit***

<http://oig.pbgc.gov/pdfs/ANNAUDITPA-16-110-20160317.pdf>

On March 17, 2016, we announced initiation of the annual PBGC financial statements audit. The Chief Financial Officer's Act of 1990 mandates that our office conduct this audit or hire an independent public accounting firm. We contract with CLA to conduct this work under our general oversight. As in past years, this audit work will include issuing opinions regarding fair presentation of the financial statements and on internal control. This audit work will also include a report on compliance with laws and regulations, a report on internal controls, FISMA template and narrative reports, and an IT vulnerability assessment and penetration testing report.

## Congressional Request

### ***PBGC's Actions in Valuing Assets of and Determining Benefits for Delphi Retirement Program for Salaried Employees***

<http://oig.pbgc.gov/pdfs/LTR-2-12-2016.pdf>

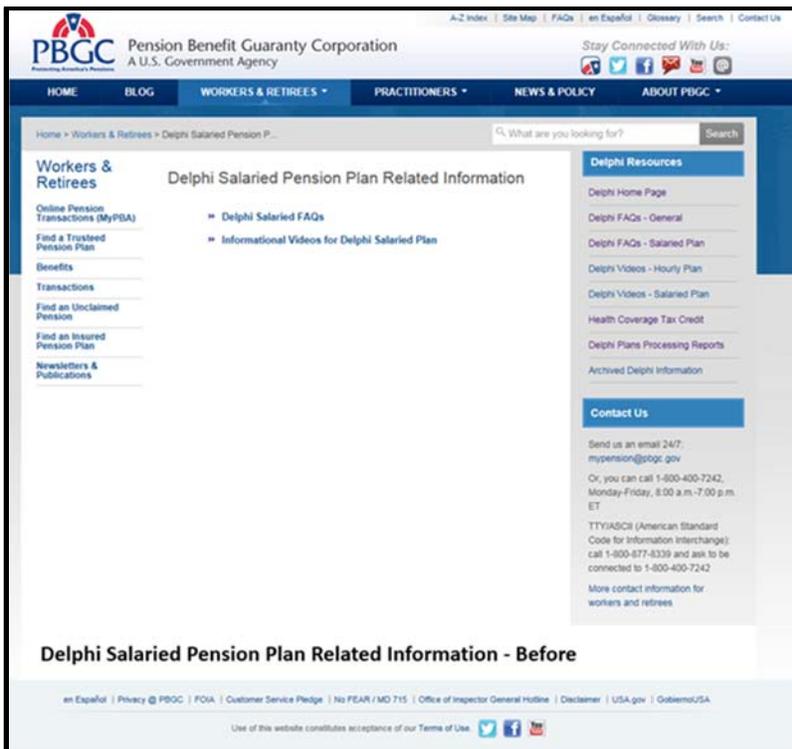
On February 12, 2016, we responded to Congressman Michael Turner's (R-OH) request for a review relating to the timing and completeness of PBGC's asset evaluation and benefit determinations for the Delphi Salaried Plan. Specifically, he asked us to review if the asset evaluation was complete, when and how it was performed, and why participants were not timely receiving benefit worksheets.

To conduct our review, we analyzed PBGC's plan asset evaluation reports and selected supporting data, and interviewed responsible PBGC officials about decisions made. We determined the substantive work to value the plan assets was completed in May 2015, and the assets were reconciled and finalized on June 29, 2015. These values were used to prepare the actuarial case memo and to calculate participant benefits. PBGC determined that the Delphi participants and public would be better served if PBGC issued a report that summarized work PBGC and its contractor performed to value the assets. This resulted in two asset valuation reports that were completed in January 2015 and May 2015, being released at the same time as the December 2015, summary report. We also clarified that PBGC provides participants with a 3-4 page benefit statement with almost all benefit determination letters and that a longer (generally 9-12 pages) benefit determination worksheet is available to a participant upon request.

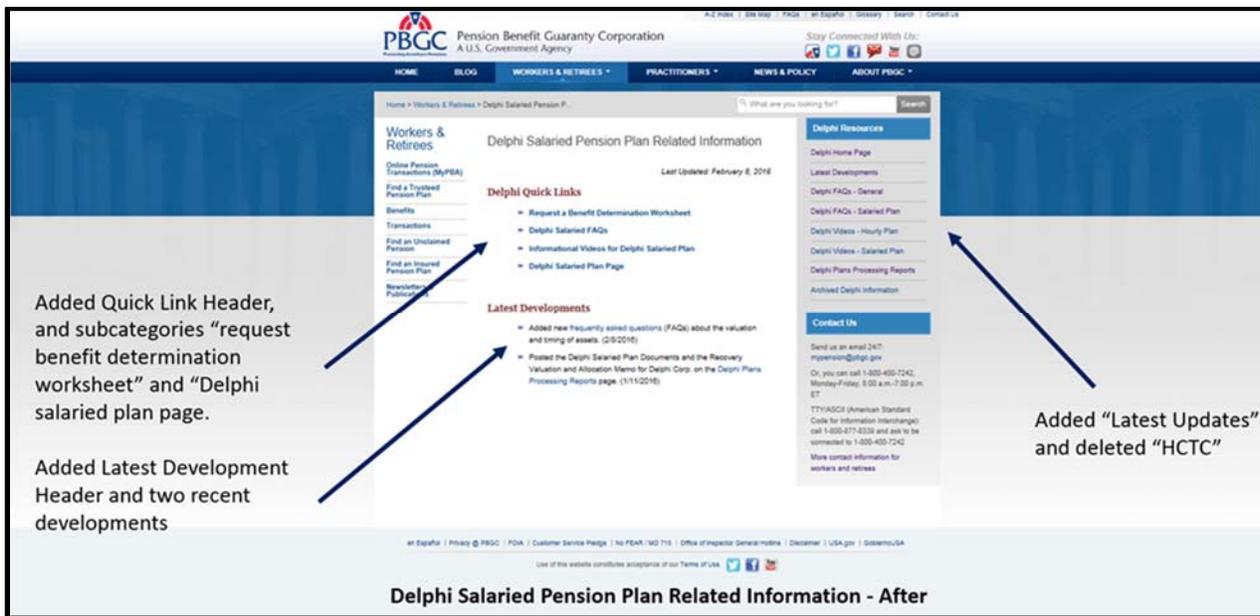
In addition to answering Congressman Turner's questions, we identified opportunities for PBGC to improve communications with plan participants and other stakeholders and issued an internal memorandum to OBA with practical suggestions. OBA was receptive to this feedback and promptly addressed our concerns.

Based on our observations and suggestions, OBA made immediate improvements to the Delphi section on PBGC's website, including reorganizing the site to more easily find information and providing new Frequently Asked Questions to explain the plan asset evaluation process. PBGC also initiated new procedures to respond more timely to participants who request detailed benefit determination worksheets and also posted that information on the PBGC Delphi website. Page 19 shows the changes made to the PBGC Delphi website based on Congressman Turner's request and our memorandum to OBA.

**Figure 1: PBGC's Delphi Salaried Plan Web Page - BEFORE**



**Figure 2: PBGC's Delphi Salaried Plan Web Page - AFTER**



## Investigative Activities

We presented four investigations for prosecution during the reporting period, three of which were declined, and one was accepted for prosecution. As discussed below, we investigated a pension benefit fraud scheme that resulted in a guilty plea and another case that we participated in that culminated in the filing of a criminal complaint after the defendant allegedly made threats against PBGC employees.

### **New York Woman Admits to Theft of \$37,000 in Pension Benefits**

On January 26, 2016, Lorraine Lorini pleaded guilty to a felony charge of theft of government money in U.S. District Court, Syracuse, NY. Lorini admitted she fraudulently applied for and received \$37,000 in pension benefits from PBGC on behalf of her deceased mother. Lorini retained this money for her own use. As part of her plea, Lorini agreed to make full restitution to PBGC.

### **Risk Advisory on Building Security Measures**

On February 18, 2016, we issued a Risk Advisory concerning a law enforcement sensitive matter. Management promptly implemented our suggestions for building security enhancements. For public safety and security purposes, this Risk Advisory was *not* placed on our public website.

### **Former PBGC Employee Charged with Making Threatening Phone Calls**

On February 25, 2016, a former PBGC employee was charged with threats to do bodily harm and attempted threats to do bodily harm in a misdemeanor criminal complaint in Washington, DC Superior Court. The complaint was filed after the employee allegedly made threatening phone calls to several current PBGC employees. We provided evidence and coordinated with the Federal Bureau of Investigation, which served as the lead agency. The proceedings in this matter are ongoing.

# 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.

## Review of Proposed Statutory and Regulatory Changes

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

- A proposed rule to amend PBGC's current ME mergers and transfers regulations, largely to provide guidance to plans that wish to seek a facilitated merger under the Multiemployer Pension Reform Act of 2014 to implement changes to ERISA Section 4231.
- A final rule prescribing the application process and notice requirements for partitions of eligible multiemployer plans to implement section 122 of MPRA and ERISA Section 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](http://oig.pbgc.gov/pdfs/PBGC_Peer_Review_Report_2013.pdf).

The National Science Foundation OIG is completing the audit peer review for the 3-year period ending September 30, 2015.

### ***Investigations***

The Office of Investigations conducted a peer review of the Government Printing Office, OIG's investigative operations in February 2016. We expect to issue a report in April 2016.

# APPENDICES

## Cross-Reference to Reporting Requirements of the Inspector General Act

<b>Inspector General Act Reference</b>	<b>Reporting Requirements</b>	<b>Page</b>
Section 4(a)(2)	Review of legislation and regulations.	21
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	4-20
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	4-20
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	25-26
Section 5(a)(4)	Matters referred to prosecutorial authorities.	20, 24
Section 5(a)(5)	Summary of instances in which information was refused.	21
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.	27
Section 5(a)(7)	Summary of each particularly significant report.	10-19
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	27
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	27
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.	21
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	21
Section 5(a)(14)	Results of peer review.	21-22
Section 5(a)(15)	Outstanding recommendations from any peer review conducted by another OIG.	22
Section 5(a)(16)	Any peer reviews performed of another OIG.	22

# SUMMARY OF AUDIT AND INVESTIGATIVE ACTIVITIES

For the Six-Month Period Ending March 31, 2016

<b>Audits/Evaluations Issued</b>		
Number of Reports	6	
Number of Recommendations	23	
<b>Management Decisions</b>		
Open Recommendations Beginning of Period	163	
Opened This Period	23	
Closed This Period	86	
Open Recommendations End of Period	100	
Reports with Open Recommendations End of Period	25	
<b>Investigative Workload</b>		
	Investigations <sup>4</sup>	Complaints <sup>5</sup>
Pending Beginning of Period	24	4
Opened	12	21
Closed	13	18
Pending End of Period	23	7
<b>Judicial Referrals</b>		
	Federal Prosecutors	Local Prosecutors
Presented	4	0
Accepted	1	0
Declined	3	0
<b>Criminal Actions</b>		
Indictments	0	
Convictions	1	
<b>Financial Recoveries</b>		
Court Ordered Fines, Penalties, and Restitution	\$0	
<b>Administrative Actions</b>		
Action Referrals	1	

<sup>4</sup> We erroneously reported that our pending investigations for the Semi-Annual Period ending September 30, 2015, was 22, the pending investigations should have been 24.

<sup>5</sup> Complaints include allegations received through the hotline and work resulting from proactive investigative efforts.

## PREVIOUSLY REPORTED SIGNIFICANT RECOMMENDATIONS FOR WHICH CORRECTIVE ACTION HAS NOT BEEN TAKEN<sup>6</sup>

For the Six-Month Period Ending March 31, 2016

Report Number, Report Title and Date Issued	Number of Significant Recommendations <sup>7</sup>	Significant Problems and Deficiencies	Summary of Significant Recommendations
2012-02/FA-11-82-2 Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2011 and 2010 Financial Statement 11/14/2011  and	3	Controls over the Present Value of Future Benefit Liability	The calculation and documentation related to the Present Value of Future Benefits, benefit determinations and the valuation of plan assets.
2013-02/FA-012-88-2 Report on Internal Controls Related to the Pension Benefit Guaranty Corporations' Fiscal 2012 and 2011 Financial Statements Audit 11/15/2012  and	1		
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  and	2		
2015-3/FA-14-101-3 Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2014 and 2013 Financial Statements Audit 11/14/2014	5		

<sup>6</sup> Includes recommendations for which management submitted a request for closure prior to March 31, 2016, but such request had not been reviewed and closed by OIG prior to the end of this reporting period.

<sup>7</sup> Reflects material weakness and significant deficiencies classifications as reported in Audit Report No. 2016-03/FA-15-108-3, *Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2015 and 2014 Financial Statement Audit*.

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
<p>2008-02/FA-0034-2 Limited Disclosure Report on Internal Controls-PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007</p> <p>and</p> <p>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</p>	<p>5</p> <p>1</p>	<p>Access controls and configuration management</p>	<p>PBGC needs to mitigate the systemic issues related to information access controls.</p>
<p>2015-3/FA-14-101-3 Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2014 and 2013 Financial Statements Audit 11/14/2014</p>	<p>5</p>	<p>Controls over premium income</p>	<p>PBGC needs to operate effective control activities over the recording of premium income.</p>
<p>2012-05/PA-10-72 PBGC Processing of Terminated United Airlines Pension Plans was Seriously Deficient 11/30/2011</p>	<p>3</p>	<p>Systemic errors and omissions in audits of terminated pension plans</p>	<p>PBGC needs to strengthen the post-trusteeship audit process.</p>

## RESULTS OF REPORTS ISSUED

For the Six-Month Period Ending March 31, 2016

	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.	0	\$0	\$0	\$0
B. Which were issued during the reporting period.	6			
Fiscal Year 2015 Vulnerability Assessment and Penetration Testing Report		\$0	\$0	\$0
Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2015 and 2014 Financial Statements		\$0	\$0	\$0
Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2015 and 2014 Financial Statements Audit		\$0	\$0	\$0
Audit of the Pension Benefit Guaranty Corporation's Financial Statements Closing Package for Fiscal Year 2015 and 2014.		\$0	\$0	\$0
Fiscal Year 2015 Financial Statement Audit Management Letter Report		\$0	\$0	\$0
Fiscal Year 2015 Federal Information Security Modernization Act Final Report		\$0	\$0	\$0
Total (Add A. & B.)	6			
C. For which a management decision was made during the reporting period.	6	\$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.	0	\$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