Pension Benefit Guaranty Corporation
Office of Inspector General
Semiannual Report to Congress

April 1, 2012 - September 30, 2012,
October 1, 2012 - March 31, 2013
and April 1, 2013 - September 30, 2013

Pension Benefit Guaranty Corporation

Office of Inspector General

1200 K Street, N.W., Washington, D.C. 20005-4026

The Board of Directors
Pension Benefit Guaranty Corporation

I am pleased to present the Office of Inspector General (OIG) Semiannual Reports for the Pension Benefit Guaranty Corporation (PBGC) for three periods: April 1, 2012 – September 30, 2012, October 1, 2012 – March 31, 2013, and April 1, 2013 - September 30, 2013. During these periods, we issued ten audit and evaluation reports with twenty-seven recommendations for improvement. We completed 7 investigations, resolved 129 complaints, and had four additional cases accepted for prosecution.

By statute, the IG is appointed by and reports to the Board of Directors (agency head). This reporting relationship is important as the Board performs its oversight of PBGC; we appreciate the access we have with the Board at the formal meetings and more informally through regular communications with the Board Representatives. In accomplishing our mission, the IG communicates with and issues audit and investigative reports to the PBGC Director, who has day-to-day responsibilities for the agency, and other PBGC leadership. Over the course of years, the OIG has developed an effective and professional working relationship with the Corporation that enables us to accomplish our mission.

The OIG has a critical responsibility in preventing and detecting fraud, waste, abuse, and mismanagement, and in providing independent audits, evaluations, and investigations of the PBGC's programs and operations. The OIG continues to focus its efforts on identifying issues that are important to PBGC and working on challenges the Corporation is facing, including:

- Adverse opinion on internal controls for the fourth consecutive year
- IT challenges
- A high number of open audit recommendations relative to the size of the agency.

As I noted in my letter accompanying this year's financial statement audit, only a small number of Federal entities receive an opinion on internal control as part of their financial statement audit. To express an opinion, the auditors must apply a high level of scrutiny to the agency's controls. From the inception of its audited financial statements, PBGC has always received this higher-standard opinion on internal control. For PBGC, the auditors have concluded that the financial statement audit opinion is unmodified – that is, the highest opinion – however, they have also concluded that the opinion on internal control over financial reporting is adverse.

Serious internal control weaknesses in PBGC's programs and operations resulted in three material weaknesses: (1) Benefits Administration and Payment Department management and oversight, (2) entity-wide security program planning and management, and (3) access controls and configuration management, and one significant deficiency related to integration of financial management systems. The three material weaknesses and the significant deficiency are critical deficiencies. The existence of material weakness is an indication that there is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. The material weaknesses also preclude the auditors from concluding that PBGC has effective internal controls. As a result, they must conduct a greater amount of substantive testing to gain assurance that the financial information is fairly presented in all material respects.

The OIG has identified serious internal control vulnerabilities and systemic security control weaknesses in the IT environment over the last several years. PBGC's delayed progress in mitigating these deficiencies at the root-cause level has posed increasing and substantial risks to PBGC's ability to carry out its mission. Due to the pervasive nature of the issues and extended time required to mitigate the associated vulnerabilities, risks remain that threaten PBGC's ability to safeguard its systems. As noted above, two of the three material weaknesses are IT-related.

We continue to work with PBGC management to address 172 open recommendations. While some progress has been made, we remain concerned about the pace of progress, since 103 of these recommendations have been open for two years or longer, and targeted completion dates have changed multiple times. PBGC initiated a new process requiring department directors to provide a rationale for the extension of due dates for audit recommendations that must be considered by the executives. We are hopeful that this will improve management ownership of and accountability for meeting remediation deadlines.

Our work, including audits that are Congressionally requested or mandated by statute, will continue to address these challenges.

We had two significant leadership changes in the OIG during this period. On August 12, 2013, Rashmi Bartlett joined the OIG as the Assistant Inspector General for Audit. She is a Certified Internal Auditor and Certified Fraud Examiner with over 20 years of experience in the federal government, financial services, telecommunications, and real estate sectors. She has brought new energy and a fresh perspective to the office.

On October 3, 2013, Inspector General Rebecca Anne Batts retired from Federal service. She served the government with excellence over a career of more than 33 years, with most of her contributions in the Inspector General community. We appreciate and honor her significant contributions to PBGC as she led the Office of Inspector General from May 2008 to October 2013 in addressing critical issues and issuing reports that resulted, and continue to result, in change of great consequence.

Deborah Stover-Springer

Deborah Stover-Springer
Acting Inspector General

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Executive Summary

This consolidated Semiannual Report to Congress summarizes the activities and accomplishments of our office for three periods: April 1, 2012 – September 30, 2012, October 1, 2012 – March 31, 2013, and April 1, 2013 - September 30, 2013. During these reporting periods, our work addressed a wide range of issues with the Corporation.

We continue to monitor PBGC's efforts to improve its internal controls. Indicative of PBGC's ineffective internal control structure is the large number of open audit recommendations. We noted that more than 60% of the recommendations that remain open relate to needed improvements in information technology and the need to establish or improve procedures (see pages 5-11).

PBGC made significant progress in some areas. We agreed with the closure of the remaining four outstanding recommendations related to its securities lending program. In general, the findings dealt with the absence of PBGC written policies and guidance for the program (see pages 11-12). PBGC also demonstrated enhanced commitment to addressing OIG concerns by, for example, making significant changes in benefit operations, holding managers accountable for recommendation completion dates, increased attention to developing corrective action plans and other ways in which there are new levels of accountability (see pages 10, 11, and 15).

In response to a request from U. S. Senators Amy Klobuchar and Al Franken, and former U.S. Congressman James Oberstar, we reviewed PBGC's actions when terminating certain steel plans located in Minnesota. In our second of two reports we determined that PBGC complied with its statute when making termination and benefit decisions; however, its processes for validating participant information were seriously flawed (see pages 12-16).

In response to a request from Congressman George Miller regarding PBGC's re-valuation of the assets of United Airlines' (UAL) terminated pension plans, for the assets we tested, we concluded that PBGC's latest contractor had properly valued the assets at the fair market value at the date of plan termination (see pages 16-17).

We issued the 20th consecutive unqualified opinion on PBGC's financial statements. For the fourth year, we reported an adverse opinion on internal controls based on three material weaknesses: enterprise-wide security program planning and management; access controls and configuration management; and Benefits Administration and Payment Department operations. We issued a report on internal controls to provide greater detail about these material weaknesses (see pages 17-24).

In a statutorily-mandated audit, we concluded that PBGC was generally in compliance with the Improper Payments Information Act (see pages 24).

Our investigative activity resulted in the issuance of several management advisories that identified errors in data audits; recommendations to strengthen the oversight of the PBGC transportation subsidy program; and internal control weaknesses in the invoicing process for labor hour contracts (see pages 28-30).

Our office remains active on various CIGIE committees and working groups to support ongoing initiatives within the inspector general community. We have participated in the New Media Working Group, the CIGIE Website Redesign Working group, and the Inspector General Focus Group to refine and discuss the OIG Federal Information Security Management Act (FISMA) metrics. Our senior leadership team has served on the various Council of Inspectors General for Integrity and Efficiency committees, including Information Technology, Assistant Inspectors General for Investigation, and Accounting and Audit Policy, providing important leadership and guidance to investigative and audit functions within the IG community (see pages 34-35).

Introduction

The Pension Benefit Guaranty Corporation

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

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

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

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

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

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

The Office of Inspector General

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

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

Inspector General is organizationally independent.

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

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

Management Challenges

PBGC faces significant management challenges in the areas of information technology and security; and effectively executing the benefits administration processes, most notably properly valuing the assets of terminated pension plans. PBGC has received an adverse opinion on internal control in the past four years' annual financial statement audits. Indicative of PBGC's ineffective internal control structure is the large number of open audit recommendations. As of the close of this reporting period (9/30/13), PBGC had 172 open audit recommendations stemming from twenty-nine OIG audit reports. Commitment to taking action to address weaknesses, assigning accountability, and testing those actions' effectiveness so that audit recommendations can be closed is indicative that management is serious about internal control. That commitment has not been consistently demonstrated across PBGC. Thus, effective action to address audit findings and recommendations has now become a management challenge in itself.

As of September 30, 2013, there are 172 open recommendations.

PBGC Needs to Focus on Correcting Known Deficiencies Reported in Audits

The IG Act requires Inspectors General to report affirmatively to Congress on the status of recommendations stemming from OIG reports. In each semiannual report, we include a section highlighting and reporting the large number of open audit recommendations. This reporting has not spurred PBGC to make significant progress in addressing open audit recommendations, resulting in a continued number of recommendations that have received little or no action to resolve the underlying deficiencies. In addition, the open recommendations relate to a large number of audit reports – 29 – meaning that the OIG has been issuing audit reports with findings and recommendations over a long course of years for which management has either not corrected or not corrected effectively. We note that:

- At the end of 9/30/12, there were 183 open recommendations;
- At the end of 3/31/13, there were 158; and
- As of 9/30/13, there were 172.

If PBGC doesn't assign accountable people, develop corrective actions plans, or establish firm dates for completion, then the result is a culture of poor internal controls.

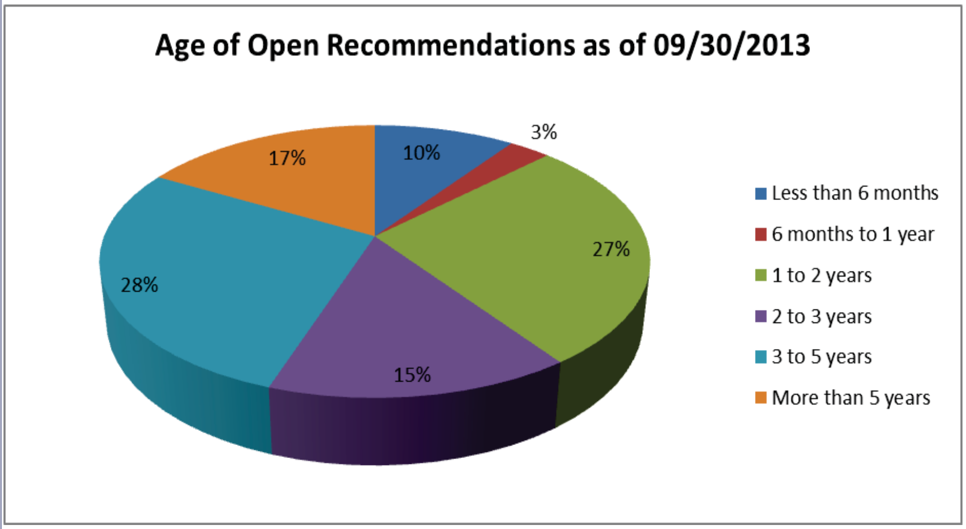
To put the current 172 open recommendations in context, we examined the recommendations from various viewpoints.

<u>Departments responsible for corrective action.</u> The majority of recommendations - 131 or 74% - relate to weaknesses in information technology (IT) and benefits administration. The 67 open IT recommendations were issued primarily from our financial statement audits and the Federal Information Security Management Act

(FISMA) assessments; the Office of Information Technology (comprised of two departments) is responsible for corrective action. There are 64 open recommendations related to benefits administration, many of which stem from our reports addressing significant systemic weaknesses in plan asset valuation and participant data audit process and other weaknesses identified in the financial statement audits. These are the responsibility of the Benefits Administration and Payment Department (BAPD).

Age of the recommendations. Of the 172 recommendations:

- 17 are less than six months old;
- 5 are between 6 months-1 year;
- 47 are between 1-2 years;
- 26 are between 2-3 years;
- 48 are between 3-5 years; and
- 29 are more than 5 years old.



These statistics, however, don't tell the whole story. While it is not good to have recommendations open for more than 5 years, if PBGC is working on them and keeping OIG apprised of their actions to resolve the recommendations, including initiating mitigating controls, then we can evaluate the level of risk to PBGC. For example, for the Corporation's very oldest recommendations – 12 relating to developing an integrated financial management system – the Chief Financial Officer provides annual briefings on progress and stumbling blocks. We first reported PBGC's need for an integrated financial system in 1996. Since that time, PBGC has been adding financial modules to reduce manual and duplicative processing. PBGC reports that the Consolidated Financial System would be completed in the first quarter of FY 2014.

Majority of recommendations are in IT and benefits administration areas.

We have 9 outstanding recommendations, the earliest of which is from 1999, addressing the need for a reliable premium accounting system. During this lengthy period, PBGC has reported on updates to the old premium accounting system and mitigating controls implemented until the new Premium Practitioner System (PPS) is implemented. PBGC reports that PPS has been developed and tested and will be implemented in late 2013. The new PPS will need to be operating in the production environment for a period of time, and tested for reliability and assurance that staff are trained and using it before we can consider it closed.

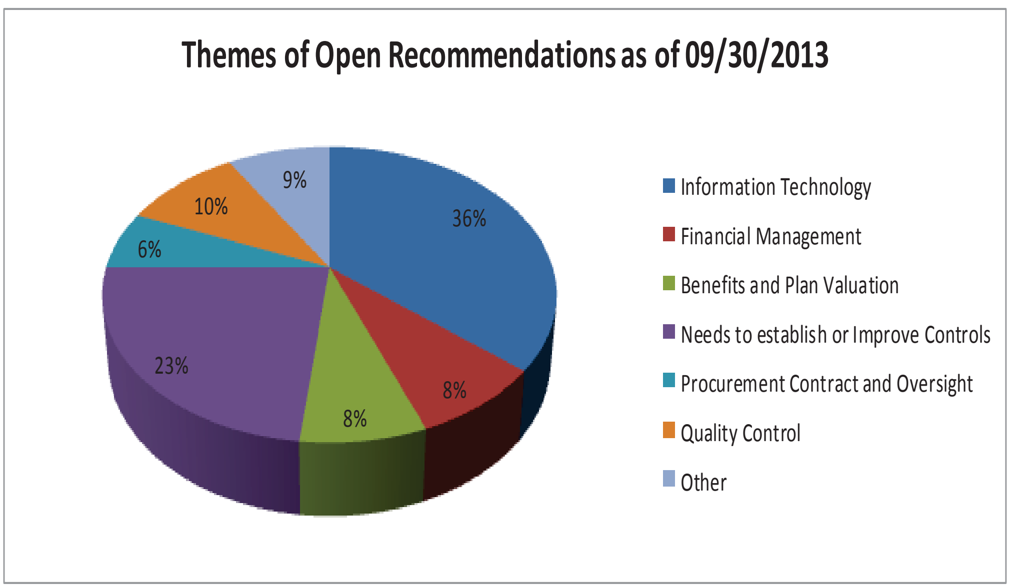
On the other hand, there are numerous recommendations that have languished, with their expected completion dates being extended multiple times. For example, 60 of the 172 recommendations' completion dates have been changed five or more times; sometimes those dates delay remediation for a few months, but sometimes for a year or more. Seventeen of the 60 are recommendations less than three years old. That means that over a 36-month period, 17 recommendations have had their expected completion dates changed 5 or more times. The IT recommendations account for 30% of the 60.

60 of the 172 recommendations' completion dates have been changed five or more times.

<u>Themes of the recommendations:</u>

The recommendations can be classified into six major themes, with some further divided into sub-categories. Except for the IT (#1) and Benefits and Plan valuation issues (#4) categories, the following recommendation themes exist throughout the Corporation's departments.

1. Information Technology comprise 62 recommendations. Of these 62, categories include: general information security (35); access controls (14); configuration management (7); and security of personally-identifiable information (6);
2. The need to establish or improve procedures comprises 40 recommendations ;
3. Financial management comprises 14 recommendations, including, integrated financial management (1), securities lending (4), premium accounting system (9);
4. Benefits and Plan valuation issues (13);
5. Quality control (17);
6. Procurement and Contractor Oversight (11);
7. Other (15), including influx report (4), training (7), records management (4)



When the recommendations are viewed by themes, we see that there are common weaknesses throughout the Corporation: non-existent or inadequate procedures; quality control; and contractor oversight. Moreover, PBGC is very IT-dependent, so those weaknesses impact the whole agency.

There are a variety of contributing factors to the many uncorrected weaknesses. For some recommendations, corrective action plans were not developed or staff were not assigned as accountable for addressing the issues. One example is PBGC's response to our report *Evaluation of PBGC's Strategic Preparations for a Potential Workload Influx*, issued in November 2010, in response to a request from then-Senator Kohl. Our report concluded that PBGC needed to enhance its ability to deal with a potential influx of terminated pension plans, to include ensuring that the important role of contractors is recognized in PBGC's strategic approach. We made five recommendations; PBGC did not agree with four of the five findings and proposed alternative actions. The OIG commented that the alternate actions lacked specificity to allow us to determine that the proposed approach would effectively address the findings and recommendations. We asked for an update within 90 days. We did not receive the update. After numerous follow-ups, we met with PBGC senior management in January 2012, who informed us that no action had been taken to address the recommendations, but committed to focusing on the report's findings and proposed alternate actions. PBGC agreed there is value in considering the workload influx from a broader strategic perspective and the Director expressed his full support. Recently, PBGC has made progress on these recommendations. The Director of Budget was assigned responsibility; as result, he has proposed process changes for PBGC to consider potential workload influxes through the budget process. We have met multiple times with him and his staff as they work toward effective corrective actions and appropriate documentation of their processes. We are encouraged by the critical thinking and management attention these findings and recommendations are now receiving.

Two IT material weaknesses persist.

Despite progress, IT issues persist. For other recommendations, the magnitude of weaknesses to be addressed and the press of day-to-day business result in a worsening environment. This is most evident in the open IT recommendations. PBGC has an adverse opinion on internal control in the financial statement audit related to three material weaknesses and one significant deficiency. Two of the three material weaknesses are IT-related: the overall information security program, and configuration management and access controls.

The OIG remains concerned at the pace in which PBGC has addressed its long-standing IT security exceptions. PBGC has a 5-year IT corrective action plan (CAP), with actions and dates extending until FY 2015. Progress has been made in some areas, such as vulnerability scanning, risk acceptance, and Security Assessment and Authorization (SA&A) for major systems; however, too many OIG recommendations remain uncorrected. Eleven IT recommendations issued in 2007 have not been remediated, and many are not scheduled to be completed until the end FY 2013. In other instances, PBGC has modified expected completion dates, deviating from the IT corrective action plan and completion dates submitted to OIG. And, the longer IT deficiencies remain uncorrected, they are exacerbated by antiquated equipment and operating systems which are at a greater risk of failure and non-support from vendors.

Moreover, PBGC's approach to resolving some open IT recommendations seems impractical. For example, PBGC has a number of open recommendations related to configuration management, many of which have existed since FY 2009. As of September 30, 2012, PBGC had reported it expected to ensure baseline configuration standards are established for all systems by October 31, 2013. However, the Corporation had also reported this same completion date for reviewing configuration settings, documenting discrepancies and developing corrective actions for systems that do not have configuration standards. OIG has observed that completing both tasks simultaneously is unfeasible given that standards must be established and implemented before any reviews are conducted. The slow progress with which PBGC is addressing a significant number of deficiencies causes concern. Information technology is ingrained in PBGC's operations. While PBGC struggles to address five-year-old recommendations, new threats are emerging, and new technologies are being introduced. If PBGC is going to continue to remain a leader in the pension community, addressing systemic IT issues in a timely manner will be critical.

PBGC needs to address five-year-old recommendations and current IT risks.

Some progress has been made. For example, during the FY 2012 financial statement audit, OIT initiated a new process to report on progress of open IT audit recommendations for which they had taken steps to address the underlying weakness but had not yet completed actions sufficient to close them. They submitted progress status reports, with artifacts, for 39 OIT recommendations. They also provided several briefings to discuss slow progress in completing CAPs and the alignment of various plans of action. OIT continued this practice during the FY 2013 financial statement audit. PBGC submitted 30 progress status reports.

We are encouraged by PBGC's selection of a new Chief Information Officer (CIO). He has engaged in open dialogue with the OIG about the deficiencies and his plans for addressing them. For example, we were not able to close nine of the twelve IT recommendations that were submitted for closure during the recent financial statement audit. OIT department directors asked to meet with us to understand what was lacking in their corrective actions and documentation. The CIO, directors and responsible IT staff engaged in detailed discussions about improvements and documentation the auditors would need to close the recommendations. The CIO has committed to submitting audit documentation for consideration of recommendation closure earlier in the financial statement audit process.

<u>Slow progress in addressing benefits administration issues.</u> Sixty-four of the 172 open recommendations relate to operations of the Benefits Administration and Payment Department (BAPD), the department responsible for terminating and trusteeing failed pension plans, determining the value of the remaining plan assets, and calculating and paying individual plan participants' benefits. Some audit recommendations have languished, including some that needed immediate attention to identify and prevent improper payments.

For example, one report, issued in February 2006, found that PBGC did not have internal controls to identify when a plan participant continued to be eligible for disability benefits or when the participant might be impacted by an earnings limitations report. If PBGC continued paying benefits to participants who were ineligible to receive them, those would be improper payments. The report had seven recommendations. Until this year, BAPD had not submitted any documentation to show progress in addressing any of the recommendations, and each of the recommendations' completion dates have been delayed six times. During 2013, BAPD met with the OIG multiple times concerning these recommendations. Accountable persons have taken specific actions to address the recommendations, and BAPD has now submitted seven recommendation closing packages which are currently under OIG review.

As in OIT, we are encouraged by the actions of PBGC's Director of BAPD, who met with the OIG within his first weeks on-board in August 2012 and has demonstrated his commitment to taking corrective actions. For example, he initiated quarterly briefings on corrective actions related to the recommendations resulting from the material weakness identified in financial statement audit. The briefings are supported by specific action plans and dates. Though some items will not be corrected until 2014 or beyond, this attention to developing corrective action plans and assigning responsible managers demonstrates a new level of accountability and transparency. In FY 2013, the OIG was able to concur in the closure of 17 recommendations based on documentation BAPD submitted; they have continued this good progress in submitting closure packages with which the OIG concurred in the early days of FY2014.

Extensions of recommendation completion dates. Exacerbating the lack of meaningful action plans to resolve recommendations was department directors' historic ability to change target completion dates with little or no justification.

Lengthy extension of recommendation completion dates raises concerns.

For example, during the reporting period ending 3/31/12, PBGC changed the expected completion dates for 93 of the 124 recommendations it had planned to complete by September 30, 2011. This calls into question PBGC's commitment to timely remediate recommendations. Of these 93 recommendations, we observed the following:

- For 28 recommendations, their target completion dates were extended for a year or more, three of which were extended 18 months or more;

- In the November 2011 report finding that PBGC had improperly valued the assets of the United Airlines pension plans, OIG recommended actions to ensure the asset valuation process was effective; some were critical changes to ensure that current plan valuations did not "go off the rails," including:
  - to establish the requirement to brief a knowledgeable senior leader on the audit results/deviations for plan valuations of very large plans, plans with significant valuation challenges, and where error rates exceed allowable thresholds;
  - to clarify BAPD procedures to require documentation of variance resolution; and
  - to develop procedures, including consultation with the Office of General Counsel, when access to records denied.

  For each of these recommendations, PBGC requested extensions from 11-16 months.

- PBGC requested multiple extensions over a two year period (from 5/31/11 – 8/31/13) for a 2010 OIT recommendation to develop and implement a capacity plan that documents current resource utilization and ensures systems are ready to support increased workloads that might occur with an influx of new plans, to include the addition of other off-site locations such as additional field benefit offices.

As a result of concerns raised by the OIG, PBGC has taken action to hold managers more accountable for recommendation completion dates. Department Directors are now required to provide a rationale for requested extensions of audit recommendation due dates to the Executive Management Committee-level. Revised dates cannot be communicated to the OIG without Executive notification. Executive officials now report quarterly on the progress of outstanding audit recommendations within their areas of responsibility.

Improved accountability and encouraging progress in some areas of PBGC.

Progress

In addition to the progress noted in OIT and BAPD above, there are some "bright spots" within PBGC that have made significant progress on closing or addressing recommendations that were quite old.

- The Procurement Department (PD) currently has one open recommendation. During this period, we were able to close recommendations that had been open for several years. PD has focused attention on correcting some of its oldest deficiencies and developing new controls to improve its business processes. For example, in one year (4/1/2011 – 3/31/2012), we agreed to the closure of 39 recommendations of the Procurement Department, 19 of which were 3-5 years old and 18 were more than 5 years old.

- For the 2009 Securities Lending report, we have had on-going discussions with the Chief Financial Officer, Chief Investment Officer, and staff of the Corporate Investment Department (CID) about actions necessary to close the 16 outstanding recommendations. Basically, CID had established new procedures and controls for the securities lending program but they had not been operational long enough for the OIG to test their effectiveness. CID submitted documentation for closure to the OIG in July 2012; upon our evaluation, we closed 12 of the Securities Lending recommendations (discussed in detail below). We note that after 9/30/13 but before this report was issued, we were able to concur in closing the remaining four open recommendations.

Significant Progress in Establishing Effective Oversight of the Securities Lending Program

PBGC made significant progress enabling OIG to agree with the closure in July 2012 of 12 of the 16 recommendations related to its securities lending program, made in our 2009 report *Evaluation of the PBGC's Activities With Respect to Its Securities Lending Program EVAL-2009-06*/ FA-08-51 (July 9, 2009). Subsequently, in 2013, PBGC submitted additional evidence which enabled OIG to close the remaining four recommendations.

OIG concurred in closing all securities lending recommendations.

PBGC engages in securities lending as part of its overall investment program. Securities lending is the process through which an investor in possession of a security allows another investor to borrow that security and use it as if owned by the borrower in exchange for collateral and payment of a fee. PBGC lends its securities through a lending agent, which is a common vehicle to enable institutional investors to lend their portfolio.

OIG hired Independent Fiduciary Services (IFS), under OIG oversight, to evaluate whether the internal controls surrounding PBGC's monitoring of these activities and the related contract were adequate, how the contract and agreement compared to similar agreements in the industry, and whether the arrangement was advantageous to PBGC. Through this review we identified several findings and recommended a number of corrective actions. In general, the findings dealt with the absence of PBGC written polices and guidance for the program.

Over the last three years, in consultation with outside experts, PBGC has worked to create governing documents to aid in the management of this program. These documents include the policies, purpose, objectives, responsibilities, guidelines, and operational methodologies related to its securities lending program. PBGC's corrective actions enabled OIG to close 12 recommendations, however, four recommendations remained open in FY 2013. To address those recommendations, PBGC needed to implement more robust program monitoring and establish parameters to better assess performance for its securities lending operations. During 2013, PBGC re-submitted documentation to support its actions. At the end of this reporting period, OIG was still in the process of assessing PBGC's actions for these four recommendations; however, prior to the issuance of this report we communicated concurrence with their closure to management.

Performance Audits, Evaluations and Management Advisories

PBGC Lawfully Terminated the National Steel Plans, but Accepted Poor Quality Work from Contractors
EVAL 2014-01/PA-09-66-2 (October 23, 2013)
(http://oig.pbgc.gov/pdfs/PA-09-66-2.pdf)

In response to a request from U. S. Senators Amy Klobuchar and Al Franken, and former U.S. Congressman James Oberstar, we reviewed PBGC's actions when terminating certain steel plans located in Minnesota. In our second of two reports, we determined that PBGC complied with its statute when making termination and benefit decisions; however, its processes for validating participant information were seriously flawed.

PBGC Did Not Violate ERISA in Termination and Benefit Decisions in the National Steel Plans

PBGC did not violate ERISA or its own policy in termination and benefit decisions with respect to the National Steel pension plans. The termination record for National Steel provides adequate justification as to why PBGC moved to terminate the National Steel plans prior to the shutdown of operations, which resulted in participants' ineligibility for shut-down benefits.

While one of PBGC's missions is to encourage the continuation of private pension plans, it also has a legal obligation to protect the long-run health of the PBGC's pension insurance program. In ERISA section 4042, PBGC was given the authority to involuntarily terminate a defined benefit pension plan when any of four statutory criteria was met:

1. The plan has not met its minimum funding standard;
2. The plan will be unable to pay benefits when due;
3. The reportable event relating to certain payments to a substantial owner; or
4. The possible long-run loss to PBGC with respect to the plan "may reasonably be expected to increase unreasonably if the plan is not terminated."

PBGC moved to terminate the National Steel plans prior to the shutdown of operations.

While National Steel was attempting to reorganize under Chapter 11's bankruptcy proceedings (petition filed on March 6, 2002), PBGC was analyzing the company's ability to continue funding and maintaining the plans. In a December 5, 2002, memorandum to the Trusteeship Working Group (TWG), PBGC financial analysts recommended that PBGC seek involuntary termination of seven of the eight National Steel plans based on ERISA 4042(a) termination criteria. This TWG recommendation memorandum was supported by much documentation, including an analysis performed by a contracted financial analysis firm who specialized in the metals industry. The TWG concurred in this recommendation; on December 6, 2002, the PBGC Director signed and issued a notice to inform plan participants that the pension plans were terminated on that date.

On May 31, 2003, PBGC entered into a Trusteeship Agreement with National Steel and set the plans' termination date as December 6, 2002. Many courts of appeals have affirmed PBGC's authority to establish the termination date. The courts look to see when the plan participants' had notice that their plan would terminate, thereby extinguishing expectations of further benefit accruals. In an analogous pension plan involving steelworkers that was terminated in 2002 with similar circumstances as National Steel, PBGC took action to terminate the plans before shutdown benefits would accrue, and the Sixth Circuit Court of Appeals upheld PBGC's termination date.

Differences Between LTV and National Steel Terminations

The Minnesota Congressional delegation and the National Steel participants point to the near-by LTV Steel companies, who also had defined benefit pension plans that provided shutdown benefits. Shortly before the National Steel terminations, PBGC did not move to terminate three pension plans sponsored by LTV Steel, though PBGC was aware of LTV's financial condition and the likelihood LTV would shut down their steel plants. When LTV shut down its plants, it resulted in the accrual of over $200 million in shutdown benefits to those participants. This is the crux of the Minnesota Steelworkers complaint that they were treated differently – and unfairly. However, each pension plan is examined independently, as ERISA section 4042 requires PBGC to examine the particular facts and circumstances of an individual plan against the statutory criteria to make a decision whether that plan must be terminated.

PBGC examines each plan independently when making termination decisions.

Just a few months after incurring a $200 million unfunded shut down liability for LTV participants, PBGC moved swiftly to take termination action prior to the plant shutdowns of National Steel, Republic Technologies Inc. (RTI), and Bethlehem Steel, thereby avoiding the accrual of shutdown benefits for participants of these plans. When PBGC learned that these bankrupt steel companies were planning to sell their assets and thereby possibly trigger company shutdowns, with accompanying shutdown benefits, PBGC moved to terminate these plans prior to their asset sales. PBGC's prompt actions in these three steel cases precluded the agency from incurring huge unfunded early retirement benefits for participants - close to $350 million in unfunded shutdown liabilities for National Steel, $95 million for RTI, and in excess of $500 million were averted for Bethlehem Steel.

We concluded that PBGC acted within its authority in ERISA 4042 in making termination decisions and establishing plan termination dates for both the National Steel and LTV Steel pension plans.

PBGC's Participant Data and Source Document Audits Provided Unreliable Results

PBGC's efforts to identify valid and accurate participant information necessary for individual benefit calculations were unreliable for the seven terminated National Steel pension plans. From 2003-2005, PBGC's contractor performed and PBGC accepted seven source document audits and seven participant data audits for National Steel plans and relied on them to establish the participant database used to value the individual participant benefits and the liability. However, these 14 audits for the National Steel plans failed to meet applicable professional standards and PBGC protocols. This occurred because PBGC and its contractor did not exercise due professional care in the conduct of these audits.

PBGC's Corrective Actions Initiated During OIG's Review

As a result of this review, OIG's previous reviews in 2011 of National Steel and United Airlines pension plans, and other analyses performed by management, the Corporation has begun making changes throughout the entire benefits operations, including processes, organizational restructuring, and personnel. To date, PBGC has:

- Recruited new leadership and staff, introduced additional training to enhance staff competencies and hired staff with auditing certifications;

- Established a new group of specialists in asset evaluation, including the hiring of three valuation experts, and contracted with an independent certified public accounting firm to provide additional valuation support;

- Improved operational and evaluation policies and procedures;

- Improved contractor oversight, and formed an independent quality management department to sharpen focus on quality and accountability.

We did not make any new recommendations to PBGC as a result of this report on the processing of National Steel Plans' terminations, because the Corporation has taken steps since 2011 to make significant changes to the entire benefits operations to address previous weaknesses identified by OIG. We will continue to monitor PBGC's progress in improving operations, establishing and strengthening internal controls, and conducting its oversight activities.

Management Advisory Report: Ensuring the Integrity of Policy Research and Analysis Department's Actuarial Calculations
OIG MAR-2012-10/PA-12-87 (May 21, 2012)
(http://oig.pbgc.gov/audit/2012/pdf/PA-12-87.pdf)

PBGC is required by ERISA to publish an annual actuarial evaluation of its operations and financial status detailing projections of long term exposure for the Single-employer and Multiemployer programs. The exposure is created by PBGC's statutory mission to assume responsibility for paying benefits for pension plan participants whose plans terminated without sufficient assets to pay their benefits. A whistleblower alleged that the FY 2010 Exposure Report issued by PBGC contained serious errors. During our review of the allegations, we found that the Policy Research and Analysis Department (PRAD) lacked a quality review process for preparing its reports. Additionally, PRAD staff did not ensure that they retained vital documentation to support the calculations performed in producing the reports. As a result of these serious internal control weaknesses, the November 10, 2011 issuance of PBGC's FY 2010 Annual Exposure Report contained unsupported and incorrect information about both the Single and Multiemployer pension programs.

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

Quality and accuracy of PRAD reports is of great importance. PRAD actuarial calculations and projections are also used by policy makers and the public. In addition to PBGC's oversight committees in the Senate and House, PBGC is asked to provide technical assistance to the Congressional Budget Office and the Joint Committee on Taxation through actuarial projections of the impact of various options for statutory changes related to pensions. Congress uses these actuarial projections to determine whether to pursue particular legislation and to score the various proposals for budget impact. The Government Accountability Office also uses this information. This influential information is also used by Executive Branch stakeholders, including PBGC's Board of Directors, the Office of Management and Budget, and the Department of Labor.

PRAD actuarial calculations and projections are not only reported in the annual exposure reports but are also used in calculating the present value of future benefits reported in PBGC's financial statements. In the FY 2011 audited financial statements, the present value of future benefits was $93 billion. The PRAD Director acknowledged the errors and stated his department did not have policies in place for quality control. PBGC management agreed with the necessary actions OIG reported.

Congress took note of our report and incorporated OIG recommendations into the *Moving Ahead for Progress in the 21st Century Act* ("MAP-21," P.L. 112-141, section 40233(b) and (c)). PBGC committed to strengthening and documenting its quality assurance process, important actions for enhancing the integrity of PRAD's actuarial work. However, PBGC will not be posting a corrected FY 2010 Exposure Report on its website, nor did PBGC issue the FY 2011 Exposure Report.

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

On June 12, 2013, we began an audit to evaluate PBGC's corrective actions made in response to OIG recommendations in the above-referenced MAR, *Ensuring the Integrity of Policy Research and Analysis Department's Actuarial Calculations*. Our audit also includes a review of PBGC's reported response to Congress as a result of the MAP-21 legislation. In section 40233 of MAP-21, subsection (b) required PBGC to complete OIG's recommendations, including developing quality assurance policies and procedures for all actuarial work performed and conducting a records management review. Subsection (c) required PBGC to submit to Congress a timetable for addressing outstanding OIG actions related to PRAD. PBGC provided Congress with a listing of corrective actions and timetable, reporting all of items were to be completed by June 30, 2013. Our fieldwork is complete and we are preparing the draft report.

Letter to Congressman Miller: OIG Review of PBGC's Revaluation of Certain United Airlines Plan Assets (February 6, 2013)

PBGC should continue to improve contractor oversight.

In response to a request from Congressman George Miller regarding PBGC's re-valuation of the assets of United Airlines' (UAL) terminated pension plans, for the assets we tested, we concluded that PBGC's latest contractor had properly valued the assets at the fair market value at the date of plan termination. Using a dollar unit sampling methodology, we tested a sample of 105 assets to determine whether values were supported by sufficient, competent and reliable evidence; whether mathematical calculations supporting the asset value were accurate; and whether the asset value was derived from a generally accepted methodology. Our testing addressed $6 billion of approximately $21 billion in assets. We did not test all assets, therefore, we provided no assurance on non-tested assets; however we did not identify any information that would lead us to question the valuation for items not tested.

We continue to have concerns regarding PBGC oversight of contractor operations and the compliance with contract requirements. This latest effort was PBGC's third attempt to determine the fair market value of UAL assets. As a result of numerous meetings between OIG, PBGC and the CPA firm, we gained a sufficient understanding of the contractor's methodology and identified applicable supporting documentation to enable us to perform tests and reach a conclusion regarding the asset valuations sampled. Notwithstanding our testing results, we believe that PBGC received, reviewed and accepted reports and work that did not fully comply with contract requirements. Problems with contractor oversight and acceptance of deliverables which do not meet contract terms are a recurring issue with PBGC.

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

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2012 and 2011 Financial Statements
AUD-2013-1/FA-12-88-1 (November 15, 2012)
(http://oig.pbgc.gov/audit/2013/pdf/FA-12-88-1.pdf)

Our audit of PBGC's Single-Employer and Multiemployer Program Funds concluded that the financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. This unqualified or "clean" opinion on PBGC's financial statements means that the auditors were able to conduct sufficient testing to conclude that PBGC's financial statement representation can be relied on; however, it does not mean that deficiencies and weaknesses were not found. FY 2012 marked the 20th consecutive year that PBGC received an unqualified opinion on it financial statements.

PBGC's financial statements are "presented fairly."

The unqualified opinion on the financial statements also includes other information important to understanding PBGC's financial position. By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. However, over a long course of years, PBGC has operated in a deficit position – i.e., its long-term liabilities to pay the pension benefits to participants in terminated pension plans exceed its assets.

- As of September 30, 2012, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $29.14 billion and $5.24 billion, respectively.

- This was an increase in the deficit for the Single-Employer Program of $5.88 billion and the Multiemployer Program of $2.47 billion from the previous year's audited financial statements. While PBGC has been able to meet its short-term benefit obligations, as noted in our audit report and discussed in Note 1 to the financial statements, PBGC management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

As an insurer, PBGC is required to estimate the loss exposure that is reasonably possible as a result of unfunded vested benefits in not-yet-terminated pension plans. Our report explained that PBGC estimated the loss exposure that is reasonably possible for the Single-Employer and Multiemployer Programs to be $295 billion and $27 billion, respectively. For some context of these numbers:

- For the Single-Employer Program, PBGC estimated this liability using data for FYs ending in calendar year 2011 from filings and submissions to the government and from corporate annual reports. This estimated liability amount had not been adjusted for economic conditions through September 30, 2012. As a result, the exposure to loss for the Single-Employer Program as of September 30, 2012, could be substantially different from the estimate reported in PBGC's financial statements.

- For the Multiemployer Program, the PBGC estimated that, as of September 30, 2012, it is reasonably possible that plans may require future financial assistance of approximately $27 billion. As of September 30, 2011 and 2010, these exposures were estimated at $23 billion and $20 billion respectively

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

Compliance with Laws and Regulations

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

Adverse Opinion on Internal Control

Ineffective internal control let to three material weaknesses.

For the fourth consecutive year, we reported that PBGC had not maintained effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2012. We continued to find deficiencies in the areas of security management, access controls, configuration management, and segregation of duties. The material weaknesses described below were serious enough to result in the expression of an adverse opinion on internal control. Three material weaknesses were reported in PBGC's:

(1) Benefits Administration and Payment Department (BAPD) Management and Oversight;
(2) Entity-wide Security Program Planning and Management; and
(3) Access Controls and Configuration Management.

We also reported one significant deficiency in integrated financial management systems.

Since the time of the first adverse internal control opinion in the FY 2009 financial statements audit report, PBGC has made only minimal progress. Though it has initiated efforts in the reorganization and improvement of its security planning and management through the design and implementation of a more coherent strategy to manage its information systems, these efforts are not complete.

Report on Internal Control Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2012 and 2011 Financial Statements Audit AUD-2013-2/FA-12-89-2 (November 15, 2012)
(http://oig.pbgc.gov/audit/2013/pdf/FA-12-88-2.pdf)

As part of the annual financial statements audit discussed above, CliftonLarsonAllen prepared an internal control report to provide more detailed discussions of the specifics underlying the material weaknesses and significant deficiency that are the basis of the adverse internal control opinion in the combined independent auditor's report on the FY 2012 financial statements. PBGC's response to this internal control report indicated management's agreement with and their commitment to addressing each recommendation, and to remediating the associated material weaknesses.

PBGC is committed to remediating material weaknesses.

To accomplish its mission and prepare its financial statements, PBGC relies extensively on the effective operation of the Benefits Administration and Payment Department (BAPD) and information technology (IT). Internal controls over these operations are essential to ensure the confidentiality, integrity, and availability of critical data while reducing the risk of errors, fraud, and other illegal acts. The internal control report provided details about the following material weaknesses reported in the financial statement audit's Internal Control opinion:

1. BAPD Management and Oversight
2. Entity-wide Security Program Planning and Management
3. Access Controls and Configuration Management

The report also details the reported significant deficiency: Integrated Financial Management Systems.

Material Weaknesses

1. Benefits Administration and Payment Department Management and Oversight

   BAPD manages the termination process for defined benefit plans, provides participant services (including calculation and payment of benefits) for PBGC-trusteed plans, provides actuarial support for PBGC, and carries out PBGC's responsibilities under settlement agreements. BAPD has several distinct divisions including Trusteeship Processing Divisions (TPDs) and the Actuarial Services Division (ASD).

   BAPD continued to have serious control weaknesses throughout the department. These weaknesses are attributed to BAPD's management and oversight over the processes needed to calculate and value participant's benefits and the related liabilities, as well as to value plan assets. Such weaknesses increased significant risks to PBGC's operations, including accurate calculation of plan participants' benefits, accurate financial reporting and compliance with prescribed laws and regulations.

   Calculation of the Present Value of Future Benefits Liability

   During FY 2012, BAPD made errors in calculating the PVFB liability for some participants. These calculation errors were primarily due to two reasons:

(1) the actuarial liability factors were applied to incorrect or incomplete data inputs, and

(2) a plan's particular benefit provisions were not sufficiently reviewed to correctly calculate individual participants' present value of future benefits (PVFB) liability.

Specifically, BAPD used actuarial assumptions because the best available data had not been updated into the applicable information system. For example, in some instances, an actual date of birth was used to calculate the participant's specific benefit but the estimated date of birth was entered in the information system, causing the liability to be incorrect. In other instances, ASD incorrectly calculated certain liabilities of the participants using a single life annuity benefit plan provision instead of the joint and survivorship benefit.

In addition, during our June 30 interim testing, we identified an error in the calculation of the participant liability for one large plan related to one of the plan's unique provisions. Management was aware of this unique plan provision; however management was not aware that the PVFB system was calculating the benefit incorrectly. Using a statistically-based sampling technique, we noted approximately 13% of the samples tested in which the liability calculated for a plan participant was either overstated or understated. The projected value of the error to the entire PVFB liability of approximately $106 billion as of September 30, 2012, had an estimated range of approximately $507 million understatement to $875 million overstatement and a point estimate of $185 million overstatement.

We also noted deficiencies in BAPD's maintenance of underlying documentation used to support the calculation of the PVFB. During our testing at June 30 and September 30, BAPD was not able to provide the documentation needed to support liability calculations for some samples, nor was the documentation maintained in a single systematic manner. Herculean efforts by BAPD and other PBGC departments were required to locate and provide the documentation needed for audit testing. The lack of appropriate documentation results in limited physical and financial reporting controls, and could lead to improper benefit payment and participant liability calculations by PBGC. Consequently, we could not determine whether the benefits or the associated liability was calculated properly for those selected samples at June 30 and September 30.

BAPD documentation problems continue.

Last year we reported several deficiencies in BAPD related to documentation, including the need to require archival of source documents, implementation of controls to ensure monitoring and enforcement of procedures requiring document maintenance, and to improve the training of persons tasked with calculating and reviewing benefit determinations. These deficiencies have not yet been corrected.

Because of errors in the liability calculations and the lack of supporting documentation, PBGC is at risk for inaccurately valuing the liabilities reported in its financial statements. Also, these deficiencies could impact PBGC management's ability to provide meaningful and accurate information to its key stakeholders such as the plan participants, the Board, Congress, and OMB.

Valuation of Plan Assets and Benefits

Although BAPD has undertaken efforts to revalue assets for certain pension plans trusteed by PBGC, internal control weaknesses in this area continue to merit focus. The fair market value of a pension plan's assets at the date of plan termination (DoPT) is an essential factor needed to determine the retirement benefit amounts owed to plan participants. The lack of BAPD's effective oversight and monitoring of contracted reviews over asset valuations continued to pose significant risks to the participants' benefit determinations.

During FY 2012, BAPD hired contractors to revalue the plan assets for some large plans which resulted in additional benefits owed to certain plan participants. BAPD management stated that a risk analysis was underway to determine which additional pension plans may have asset valuation misstatements and pose the greatest risks to the participants' benefit payments. This risk analysis was not complete as of September 30, 2012. In addition, management had not finalized a quality control review process to verify and validate the satisfactory completion of contracted DoPT plan asset valuation audits, and to establish a detailed process to ensure the consistent application of a methodology to determine the fair market value of plan assets at DoPT as of September 30, 2012.

PBGC is at risk for inaccurately valuing plan liabilities.

Additional weaknesses identified as part of the prior year financial statement audit stemmed from BAPD's inadequate management of contractors, a condition that continues to exist. As previously discussed, these contractors perform critical functions such as the valuing of plan assets. Services provided by contractors should be subject to an effective system of internal controls. Management has not always fully considered the exposure and risk that contractors introduce into its environment. BAPD intended to develop corrective action plans in FY 2012 to focus on fundamental issues such as internal controls, processes, contractor oversight, training and staff competencies. However, the development of these plans was still in progress at September 30, 2012.

Two of the material weaknesses related to information technology (IT). IT continued to be a challenge for management. The safeguarding of PBGC's systems and data is essential to protect PBGC's operations and mission. The OIG and others have consistently identified serious internal control vulnerabilities and systemic security control weaknesses in the IT environment over the last several years. PBGC's delayed progress in mitigating these deficiencies at the root-cause level continued to pose increasing and substantial risks to PBGC's ability to carry out its mission during FY 2012. Due to the persistent nature and extended time required to mitigate such vulnerabilities, additional risks threaten PBGC's ability to safeguard its systems. These risks include technological obsolescence, inability to execute corrective actions, breakdown in communications, and poor monitoring.

2. Entity-wide Security Program Planning and Management – In prior years, we reported that PBGC's entity-wide security program lacked focus and a coordinated effort to adequately resolve control deficiencies. An entity-wide information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle

PBGC's IT environment has not yet addressed security weaknesses.

of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures.

Deficiencies persisted in FY 2012, which prevented PBGC from implementing effective security controls to protect its information from unauthorized access, modification, and disclosure. Without a well-designed and fully implemented information security management program, there is increased risk that security controls are inadequate; responsibilities are unclear, misunderstood, and improperly implemented; and controls are inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

- NIST SP 800-53, *Recommended Security Controls for Federal Information Systems*, identifies 172 controls within 17 security control families, of which PBGC identified 130 as their common security controls. As of the end of FY 2012, PBGC had not documented the details of the specific actions needed to complete and confirm the design, implementation, and operating effectiveness of these identified common security controls.

- Weaknesses in PBGC's infrastructure design and deployment strategy for systems and applications adversely affected its ability to effectively implement common security controls across its systems and applications. While PBGC had taken a number of corrective actions, they were not completed and implementation tested by year-end.

- Information security policies and procedures were not fully disseminated and implemented. PBGC made progress in providing annual security awareness training for staff through an online information security awareness module; however, security incident response and role-based training is still in development.

3. Access Controls and Configuration Management – We reported that PBGC's decentralized approach to system development, system deployment, and configuration management created an environment that lacked a cohesive structure in which to implement controls and best practices. Weaknesses in the IT environment contributed to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring.

   Access controls should be in place to consistently limit and detect inappropriate access to computer resources (data, equipment, and facilities); and monitor access to computer programs, data, equipment, and facilities. These controls protect against unauthorized modification, disclosure, loss, or impairment. Such controls include both logical and physical security controls to ensure that federal employees and contractors will be given only the access privileges necessary to perform business functions.

   Inappropriate access and configuration management controls do not provide PBGC with sufficient assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction.

Significant Deficiency

The Internal Control Opinion also determined that the lack of an Integrated Financial Management System was a continued significant deficiency. As reported in prior year audits, the risk of inaccurate, inconsistent, and redundant data was increased because PBGC lacked a single integrated financial management system. The system could not be readily accessed and used by financial and program managers without extensive manipulation, excessive manual processing, and inefficient balancing of reports to reconcile disbursements, collections, and general ledger data.

Progress made to integrate PBGC's financial management system.

PBGC was working on several projects to more fully integrate its financial management system that were not yet completed in FY 2012:

- In January 2013, PBGC planned to implement the Trust Accounting and FY File System (TAS) after completing the TAS user acceptance testing. TAS would replace certain applications and have automated interfaces with others. PBGC has also identified future capabilities in its financial management "to-be" architecture, including a procurement system and an online budgeting system.

- In December 2013, the Premium and Practitioner System (PPS) will be fully integrated with the Oracle eBusiness Suite COTS solution used for PBGC's Consolidated Financial Systems, and will replace the current premium accounting system.

Because PBGC has not fully integrated its financial systems, PBGC's ability to accurately and efficiently accumulate and summarize information required for internal and external financial reporting is impacted.

Audit of the Pension Benefit Guaranty Corporation's
Fiscal Year 2012 and 2011 Special-Purpose Financial Statements
AUD-2013-4/FA-12-88-4 (November 16, 2012)
(http://oig.pbgc.gov/audit/2013/pdf/FA-12-88-4.pdf)

As part of the annual financial statements audit, CliftonLarsonAllen also audited the PBGC Fiscal Year 2012 and 2011 Special-Purpose Financial Statements. The auditors concluded that the special-purpose financial statements and accompanying notes presented fairly, in all material respects, the financial position of PBGC as of September 30, 2012 and 2011, and its net costs and changes in net position for the years then ended in conformity with accounting principles generally accepted in the United States of America and that the presentation was consistent with requirements of the U.S. Department of the Treasury.

PBGC prepares special-purpose financial statements to provide financial information to the Treasury and GAO through the Government-wide Financial Reporting System for GAO's use in preparing and auditing the Financial Report of the U.S. Government. The special purpose report is not intended to be a complete presentation of PBGC's financial statements. Rather, these special purpose financial statements link PBGC's audited financial statements to the Financial Report of the United States Government.

Fiscal Year 2012 Financial Statements Audit Management Letter AUD-2013-8/FA-12-88-7 (May 14, 2013; not publicly available)

PBGC's Special Purpose Financial Statements are "presented fairly."

The annual financial statements audit process led to the identification of certain less significant matters related to PBGC internal control and operations that were not included in the internal control report (AUD-2013-2/FA-12-88-2), discussed above. The management letter summarized findings that resulted in 10 new recommendations regarding those less significant matters and reported on the status of 48 recommendations that remain open from prior years' management letter recommendations.

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

1. Personal Interest Conflict – As reported in previous years, some employees could view and edit information for their relatives in a number of PBGC IT systems;

2. Benefit Payment Process for Deceased participants – PBGC accounted for overpayment recoveries of death benefits on a cash basis which is inconsistent with generally accepted accounting principles and the Corporation's stated basis of accounting; and

3. Participant Data Review – PBGC did not sample small plans to perform a database quality assurance as required and did not follow prescribed procedures for constructing the participant database for a large plan (more than 500 participants).

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

Audit of PBGC's FY 2012 Compliance with the Implementation of the Improper Payments Act AUD-2013-05/ PA-12-92 (March 15, 2013) (http://oig.pbgc.gov/audit/2013/pdf/PA-12-92.pdf)

As required by the Improper Payments Information Act (IPIA) (P.L. 107-300), as amended by the Improper Payments Elimination and Recovery Act (IPERA) (P.L. 111-204), we conducted an audit of PBGC's compliance with IPIA requirements. We determined that PBGC has instituted a systematic method to review its programs and activities for improper payments and has generally complied with IPIA implementing requirements. While we concluded that PBGC was in compliance with IPIA requirements, we included a General Comment for PBGC management's consideration regarding the clarity of PBGC's presentation of the results of their testing of benefit payments in Appendix A of the 2012 PBGC Annual Report.

PBGC reported $24.8 million in improper payments, which lacked documentation for benefit payments; however, PBGC did not explain that the underlying documentation was not fully tested. Without such an explanation, users of the report may believe this amount represents the estimated improper payments resulting from documentation issues for the entire benefit payment stream. We note that the 2012 Appendix A does not discuss PBGC's request to OMB for using its specific approach and OMB's subsequent approval to carve-out underlying documentation testing, but rather states only:

PBGC complied with the Improper Payments Information Act.

> PBGC updated the payment definitions and testing approaches to better focus on key payment processing elements. In contrast, in its FY 2011 Annual Report, PBGC highlighted the significant lack of documentation as a legacy documentation issue, but did not disclose the magnitude of the problem. However, the effect of the "carve-out" was to eliminate the vast majority of the documentation issues, a fact that is not clear from PBGC's presentation that provides a dollar value for errors due to lack of documentation.

We believe that the disparity in the level of information disclosed between both fiscal years and, in particular the lack of details with respect to the testing methodology carve-out that occurred in FY 2012, could mislead readers. PBGC can strengthen its reporting by defining error types in greater detail and specifically identifying any changes in testing methodologies. Details such as testing methodology, the approval to OMB, and/or the correlating factors for reporting improper payments with lack of documentations would improve the Corporation's IPIA reporting.

Information Technology Audits and Follow-up

FY 2012 Vulnerability Assessment and Penetration Testing Report
EVAL 2013-7/ FA 12-88-6 (May 16, 2013)
(http://oig.pbgc.gov/pdfs/FA-12-88-6.pdf)

This restricted disclosure report detailed the results of CliftonLarsonAllen's assessment of the PBGC information security infrastructure. This review was conducted to find technical weaknesses in PBGC's computer systems that may allow employees or outsiders to cause harm to and/or impact PBGC"s business processes and information. We found that PBGC has followed through on its commitment to address security vulnerabilities. PBGC's information security had improved; the number of critical and high vulnerabilities has significantly declined by more than 65%. However, the number of medium vulnerabilities has increased and several critical and high risk weaknesses have repeated from prior years. Moreover, many PBGC systems are not adequately patched or password protected. PBGC is heading in the right direction but much work remains.

FY 2012 Federal Information Security Management Act (FISMA) Submission to the Office of Management and Budget
LTR 2013-3/FA-12-88-3 (November 14, 2012)
(http://oig.pbgc.gov/pdfs/FA-12-88-3.pdf)

and

Fiscal Year 2012 Federal Information Security Management Act (FISMA) Independent Evaluation Report
EVAL -2013-6/FA-12-88-5 (May 1, 2013)
(http://oig.pbgc.gov/pdfs/FA-12-88-5.pdf)

PBGC's IT controls not yet mature.

The Federal Information Security Management Act (FISMA) requires federal entities to report annually to the Office of Management and Budget (OMB) the state of their information security. FISMA also requires Inspectors General to conduct independent annual evaluations of agencies' security programs and practices and to report the results to OMB. In conjunction with the financial statement audit, we contracted with CliftonLarsonAllen to perform, under OIG oversight, an independent evaluation to assess the effectiveness of PBGC's information security program and practices and to determine compliance with the requirements of FISMA and related information security policies, procedures, standards, and guidelines. On November 15, 2012, we transmitted the FISMA template report to OMB. Thereafter, we prepared a narrative report on PBGC's progress on correcting prior years' recommendations and to provide additional information on the results of our review of PBGC's information security program.

Overall, we determined that IT continues to be a challenge for management. PBGC's delayed progress in mitigating deficiencies at the root-cause level continued to pose increasing and substantial risks to PBGC's ability to carry out its mission during FY 2012. Due to the persistent nature and extended time required to mitigate such vulnerabilities, additional risks threaten PBGC's ability to safeguard its systems. These risks include technological obsolescence, inability to execute corrective actions, breakdown in communications, and poor monitoring. Some issues reported this year are:

- A PBGC server was incorrectly configured. All users had read and write access to local storage drive and a user placed Personally Identifiable Information on the server, which permitted unauthorized users access to sensitive information.

- PBGC had not completed the security categorization of all of its information systems.
- PBGC's Plan of Action and Milestone process was not mature and effective.

We concluded PBGC has made some progress by continuing the implementation of its FY 2010 Enterprise Corrective Action Plan (CAP), and introducing additional reporting controls to track progress. The Corporation has also made progress in addressing the design of its infrastructure, account management, enterprise security management, and configuration management, but the control processes have not reached a level of maturity to prove their effectiveness.

FY 2011 Federal Information Security Management Act (FISMA) Submission to the Office of Management and Budget
LTR 2012-3/FA-11-82-3 (November 14, 2012)
(http://oig.pbgc.gov/pdfs/FA-11-82-3.pdf)

and

Fiscal Year 2011 Federal Information Security Management Act (FISMA) Independent Evaluation Report
EVAL-2012-9 / FA-11-82-7 (May 11, 2012)
(http://oig.pbgc.gov/audit/2012/pdf/FA-11-82-7.pdf)

We submitted the template report to OMB, noting that PBGC's systemic security control weaknesses continued to pose a substantial and increased risk to PBGC's ability to carry out its mission during FY 2011. In a separate narrative report, we evaluated the Corporation's implementation of its multi-year corrective action plan (CAP) to address IT security issues at the root cause level. The extended time and the lack of meaningful progress in PBGC's CAP to correct previously reported deficiencies introduced additional risks. These include technological obsolescence, inability to execute corrective actions, breakdown in communications and poor monitoring. PBGC management has recognized that these weaknesses will continue to pose a threat to its IT environment while corrective actions are being implemented. Our primary concern, as expressed in our FISMA report, is whether PBGC will be able to implement interim corrective actions in a way that will ensure that fundamental security weaknesses do not worsen as the CAP is being implemented. PBGC's management stated their agreement with 9 of the 10 recommendations in the FY 2011 report and subsequently remediated the remaining recommendation.

Systematic IT control weaknesses pose a risk to PBGC.

Alert Memorandum: Compromise of Information Security

We issued an Alert Memorandum to the Chief Information Officer (CIO) regarding the disclosure of PBGC documents and emails when a senior PBGC leader had transmitted this information to his personal email and that email account was hacked. Overall, we determined that PBGC did not follow the agency incident response policy in investigating and mitigating the disclosure of sensitive PBGC documents and emails. The incident was not properly categorized or evaluated to fully assess the impact to agency operations; nor did PBGC conduct an evaluation of the impact for those affected. As a result of our Alert Memorandum, PBGC evaluated all of the documents that were disclosed and, when necessary, contacted those affected individuals via certified letters. PBGC has also agreed to re-evaluate the agency incident handling policies and procedures; we will closely monitor PBGC's modification of agency policy as a result of this incident.

Continued Communications between OIG and OIT

OIG performs continuous oversight within various aspects of PBGC's Information Technology program. Specific examples include:

- OIG receives updates every 90 days on PBGC's recently implemented vulnerability and patch management program. As a result of OIG findings and recommendations, PBGC dedicated a team responsible for the oversight and mitigation of critical and high vulnerabilities. Since OIG's first meeting more than a year ago, the Corporation has made notable progress in mitigating the most serious vulnerabilities and has now begun to focus on medium vulnerabilities and documentation of risk acceptance, when applicable.

OIG meets with OIT to monitor progress in this high risk area.

- OIG meets quarterly with the Chief Information Officer (CIO) to discuss the agency's cloud vision moving forward. We acknowledge the CIO's understanding and recognition that the OIG needs to be involved early in the process as PBGC considers transferring resources to the cloud. Among the needs that PBGC must address when considering movement to the cloud are the OIG's right of access to conduct audits and investigations and ensuring PBGC has implemented appropriate controls to ensure the protection of sensitive data and email communications.

OIG appreciates PBGC's efforts in addressing the persistent vulnerabilities that exist in the cyber-security world and looks forward to continued collaborative meetings.

Investigations

Fraud Related to Pension Benefits

Plan Participant Receives Over $25,000 in Back Pay

An investigation initiated from a Hotline complaint from a Delta Pilot Retirement Plan participant identified an internal control weakness in PBGC's processing of large back payments. According to the participant, he received a Benefit Determination Letter from one of PBGC's Field Benefit Administrators (FBAs) stating he was due a large back payment. The letter identified two options to receive payment: completing a Lump Sum Application or waiting 30 days after the date of the letter to receive the payment automatically.

After waiting over a year for payment, the participant contacted the OIG Hotline for assistance. The OIG investigation determined that PBGC had not established effective controls to track participants who received a lump sum benefit letter. As a result of the OIG investigation, the participant received his back payment with interest and the FBA instituted a Corrective Action Plan to improve large back payment processing procedures.

Attempted Fraud Against PBGC Account

PBGC OIG became aware of five possibly related attempts to negotiate fraudulent checks on a PBGC bank account. The checks contained correct bank routing and account numbers for a PBGC account used to transmit payments for Missing Participants. As a result of the investigation, a new Missing Participant account has been established. PBGC did not suffer a loss from these fraud attempts. We referred this matter to the United States Secret Service for further investigation.

Management Advisory Reports

Weaknesses in Review of Labor-Hour Contract Invoices

As part of our proactive initiative on potential procurement fraud, we reviewed the labor hours invoiced by an actuarial services contractor that provided services to a PBGC department. Because labor-hour contracts pose a great risk across the government when not properly monitored, it is very important that internal controls be in place to monitor the hours worked, validate the hours billed, and assess the quality of the work produced.

The review identified several weaknesses in the department's invoice review practices. Our review of the contractor resulted in the issuance of a management advisory to strengthen internal controls by ensuring the effective review of invoices.

Errors in Weirton Steel Participant Data Audit Similar to Those in National Steel

The OIG received a Hotline inquiry from participants in the Weirton Steel Corporation's (Weirton) pension plan as a result of our audit report that found PBGC's National Steel Corporation pension plan audits were seriously flawed. We reviewed the July 11, 2005 Weirton Participant Data Audit (PDA) and Database Construction report that had been issued to PBGC by the same PBGC contractor who did sub-standard work in the National Steel plans. The main objective of the PDA was to verify participant records and ensure the reliability of the PBGC's constructed database for purposes of calculating the Weirton participants' benefits.

The contractor's report on the reliability of the participant database was flawed.

The contractor's report detailed a comparison of a statistical sample of Weirton participant data against PBGC's participant database. The OIG review of the report found that it contained incorrect computations of the statistical sampling results. As a result, the OIG review established that the contractor's report on the reliability of the participant database was flawed. One significant and elementary error included the contractor's failure to move the decimal points two places to the right when converting decimals to percentages. This resulted in a gross understatement of the actual error rates determined by the statistical sampling.

Had the contractor computed the correct error rates, their next step should have been to determine the significance of the errors and possibly retest a larger sample of participant data for accuracy. However, due to the misplaced decimal points, the errors rates fell within an acceptable established range and the contractor took no further action. PBGC's review of the contractor's work did not catch the errors, and the flawed work was accepted.

By relying on the erroneous error rates, the contractor reached the potentially false conclusion that the participant database was accurate and complete, and PBGC relied on the work. The OIG referred the issue to PBGC for their evaluation of the reliability of the participant database to ensure that the Weirton participants are currently receiving or will receive the benefits to which they are entitled.

PBGC employees repaid subsidies fraudulently received and incurred penalties.

Corrective Actions Resulting from Investigations

PBGC Strengthens Transportation Subsidy Program and Requires Repayment of Money

As reported in a prior Semiannual Report to Congress, the OIG investigated two federal employees who fraudulently received more than $10,000 in parking subsidies/benefits. As a result of our investigation we issued a report for management to take corrective action with respect to the employees and also OIG issued a Management Advisory Report with suggested actions to clarify and strengthen PBGC's transportation subsidy directive, including adding a statement that violations of the program will be referred to the OIG. On August 22, 2012, PBGC issued a revised directive that addressed our Management Advisory. In late 2012, PBGC also required the two employees who wrongfully received the subsidies to repay them, as well as imposed other sanctions.

Other OIG Statutory Reporting

Access to Information

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

Management Decisions

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

Audit Peer Review

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. A copy of this peer review is found at our website: http://oig.pbgc.gov/pdfs/PBGC_Peer_Review_Report_2013.pdf .

Review of Proposed Statutory and Regulatory Changes

A major responsibility of the OIG under the Inspector General Act is the independent review of PBGC-proposed changes to laws and regulations. There were no PBGC statutory proposals during these periods. PBGC issued two proposed rules during the most recent reporting period: in April 2013, with respect to reportable events, and in July 13 with respect to premiums. OIG reviewed and commented on the proposed rules in prior reporting periods.

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Other Office of Inspector General Activities

CIGIE Award to the Mission-Critical Pension Plan Processing Evaluation Team

The Council of Inspectors General on Integrity and Efficiency recognized the PBGC OIG Mission-Critical Pension Plan Processing Evaluation Team with an award for excellence at the annual CIGIE Awards ceremony in early October 2012. This award recognized the work our office accomplished in our review of PBGC's processing of the National Steel and United Airlines terminations, in particular the valuations of the plans' assets. The team determined that PBGC did not follow its own protocols; it accepted and paid for contractor work purporting to be "audits" intended to identify and establish the fair market value of plan assets that contained obvious errors and omissions. How well a terminated pension plan is funded has a direct impact on PBGC's determination of the participants' pension benefits. Because of the systemic nature of the issues, (1) neither PBGC nor the 1.5 million participants in terminated pension plans can be assured that their plans' assets have been properly valued and pension benefits properly determined, and (2) PBGC received no value for the $26 million of funds paid to the contractor.

OIG team recognized by the Inspector General community.

Because of the pervasiveness of errors, the Corporation has initiated a top-to-bottom strategic review of the department conducting the post-termination processes. A national consulting firm was hired to perform a review of the structure, processes and procedures. PBGC has also initiated re-valuations of the plan assets of the largest 10 plan terminations and is developing a plan for assessing the impact on all other previously terminated plans.

Training Cost Savings for IG Community

We provided training and training space to other OIGs and CIGIE at little or no cost, including:

- We sponsored training offered by the Institute of Internal Auditors, "Assessing the Relevance and Reliability of Performance Information," onsite for our staff and offered training slots to OIGs until class capacity was reached. This on-site training allowed 18 OIGs to obtain 16 hours of continuing professional education (CPE) credits at a significantly reduced cost.

- We paid for and hosted the Association of Government Accountants' (AGA) training, "Certified Government Financial Manager," offering this opportunity to other OIGs. In addition to all of our audit staff, ten staff from other OIGs participated in this training, obtaining 48 CPEs at no cost to their own agency. This course and significant study materials will assist participants in studying to obtain the AGA's professional certification as a Government Financial Manager.

- We arranged for the OIG community to use PBGC's state-of-the-art training facilities, allowing CIGIE to conduct multiple training classes, such as the 2-week "Introductory Auditor Training" and "Leading Edge," and meetings such as the quarterly CIGIE IT Committee Meeting and an AIGI Conference.

External and Internal Professional Activities

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

- Then-IG Rebecca Anne Batts participated in the Council of Inspectors General for Integrity and Efficiency (CIGIE) that promotes collaboration on integrity, economy, and efficiency issues that transcend individual agencies. Ms. Batts served as the chair of the CIGIE Information Technology Committee, which Developed CIGIE's Quality Standards for Digital Forensics, represented the IG community and met with the Federal Acquisition Regulatory Council in the development of proposed language regarding IG access to data in a cloud environment, worked with the Department of Homeland Security to refine the Federal Information Security Management Act metrics for the OIGs and conducted a survey of the CIGIE community related to OIG's penetration testing usage, tools, staffing, training, as well as future needs. As IT committee chair, she served on the CIGIE Executive Council and was also a member of the CIGIE Audit Committee.

- Assistant IG for Investigations (AIGI) Aaron R. Jordan served as Chair of the CIGIE Committee of Assistant Inspectors General for Investigation, a subcommittee of the CIGIE Investigations Committee, through September 30, 2013. The AIGI Committee serves as a forum for internal discussion and a channel for suggestions, issues and concerns that affect the OIG investigations community as a whole. The AIGI Committee chairperson and vice chairperson serve as ex-officio members of the CIGIE Investigations Committee. In addition to their regular quarterly meetings, the AIGI annual conference was held on April 23-24, 2013 at the headquarters of the Environmental Protection Agency.

- Audit Manager Joseph Marchowsky serves on the Accounting and Audit Policy Committee, which is a permanent committee established by the Federal Accounting Standards Advisory Board. Federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable. The AAPC issues technical releases related to existing Federal accounting standards. AAPC's technical releases are a form of authoritative guidance for generally accepted accounting principles for Federal entities.

- IT Audit Manager Jarvis Rodgers continued participation in the FY 2014 Inspector General Focus Group to refine and discuss the OIG Federal Information Security Management Act (FISMA) metrics. Team members across the IG community previously received a CIGIE award for participation in this very important effort and we continue to support and encourage our team to assist the broader OIG community.

- Special Agent-in-Charge Curtis Flood is participating in the CIGIE Website Redesign Working Group that began during this period. Activities undertaken include (1) developing a Website Content Project Plan that identified specific goals and objectives to create an innovative redesign of the CIGIE website; (2) reviewing web pages from other OIGs and agencies to understand how social media impacted their web content; and (3) issuing a survey to the IG community to identify how stakeholders viewed the user ability of the current CIGIE website. The working group is currently analyzing the survey data.

- IT Audit Manager Jarvis Rodgers actively participated and advised the IG in her service as the CIGIE IT Committee Chair, including assisting in procuring speakers and participants to address IT issues that are pertinent to the Inspector General Community. He was also active on the Federal Audit Executive Council (FAEC) IT committee, attending meetings and opining on IT security legislation.

- A senior auditor participated in CIGIE's New Media Working Group to build upon prior work in the September 2011 report, *Recommended Practices for Office of Inspectors General Use of New Media.* Subgroups focused on legal and information security issues associated with Office of Inspectors General official use of social media. The report, *New Media for Offices of Inspectors General: A Discussion of Legal, Privacy and Information Security Issues*, was issued in September 2013.

- A Special Agent completed the Federal Law Enforcement Training Center's Covert Electronic Surveillance Program (CESP) in February 2013 and earned a Provisional Technical Investigator Certification from the National Technical Investigators' Association.

OIG employees contributed to the Inspector General community.

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Appendix

CROSS-REFERENCE TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

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

Inspector General Act Reference	Reporting Requirements.	Page
Section 4(a)(2)	Review of legislation and regulations.	31
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	5-30
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	5-30
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	42-43
Section 5(a)(4)	Matters referred to prosecutorial authorities.	39
Section 5(a)(5)	Summary of instances in which information was refused.	31
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.	40-41
Section 5(a)(7)	Summary of each particularly significant report.	5-30
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	40-41
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	40-41
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.	41
Section 5(a)(11)	Significant revised management decisions.	31
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	31

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SUMMARY OF AUDIT AND INVESTIGATIVE ACTIVITIES

For the Six-Month Periods Ending September 30, 2012 through September 30, 2013

	9/30/12	3/31/13	9/30/13
Audits/Evaluations Issued			
Number of Reports	1	4	3
Number of Recommendations	5	5	17
Management Decisions			
Open Recommendations Beginning of Period	195	183	158
Opened This Period	5	5	17
Closed This Period	17	30	3
Open Recommendations End of Period	183	158	172
Reports with Open Recommendations End of Period	28	26	29
Investigations			
Pending Beginning of Period	8	13	13
Opened	8	1	2
Closed	3	1	1
Complaints[1]			
Pending Beginning of Period	15	16	16
Opened	57	52	33
Closed	56	52	26
Pending End of Period	16	16	23
Financial Recoveries[2]			
Theft of Funds Recovered	0	0	0
Court Ordered Fines, Penalties, and Restitution	0	$12,000	0
U.S. Government Property Recovered	0	0	0
Criminal Actions[2]			
Arrests	0	0	0
Indictments	0	0	0
Convictions	0	0	0
Administrative Actions[2]	0	2	2
Referrals			
For Prosecution:			
Department of Justice	1	0	0
Various States' Attorney Offices	0	0	0
Declined	0	1	1
For Other Action:			
PBGC Management for Corrective Action	0	6	3

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

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

RESULTS OF REPORTS ISSUED For the Six-Month Periods Ending September 30, 2012, March 31, 2013, and September 30, 2013				
	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.	3	$0	$0	$0
B. Which were issued during the reporting period.	10	$0	$0	$0
Fiscal Year 2011 Federal Information Security Management Act Independent Evaluation Report (5/11/2012)		$0	$0	$0
Ensuring the Integrity of Policy Research and Analysis Department's Actuarial Calculations (5/21/2012)		$0	$0	$0
Audit of Pension Benefit Guaranty Corporation's Fiscal Year 2012 and 2011 Financial Statements (11/14/2012)		$0	$0	$0
FY 2012 Federal Information Security Management Act Submission to the Office of Management and Budget (11/14/2012)		$0	$0	$0
Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2012 and 2011 Financial Statements (11/15/2012)		$0	$0	$0
Audit of Pension Benefit Guaranty Corporation's Fiscal Year 2012 and 2011 Special Purpose Financial Statements (11/16/2012)		$0	$0	$0

RESULTS OF REPORTS ISSUED Continued

For the Six-Month Periods Ending September 30, 2012, March 31, 2013, and September 30, 2013

	Number of Reports	Questioned Costs	Unsupported Costs	Funds Put to Better Use
FY 2012 Audit of PBGC's Compliance with the Implementation of the Improper Payments Act (3/14/2013)		$0	$0	$0
Fiscal Year 2012 Federal Information Security Management Act Independent Evaluation Report (5/1/2013)		$0	$0	$0
Fiscal Year 2012 Financial Statements Management Letter (5/14/2013)		$0	$0	$0
Fiscal Year 2012 Vulnerability Assessment and Penetration Testing Report (5/16/2013)		$0	$0	$0
Total (Add A. & B.)	13	$0	$0	$0
C. For which a management decision was made during the reporting period.	12	$0	$0	$0
(i) dollar value of disallowed costs		$0	$0	$0
(ii) dollar value of costs not disallowed		$0	$0	$0
D. For which no management decision had been made by the end of the reporting period.	1	$0	$0	$0
E. For which no management decision was made within six months of issuance.	0	$0	$0	$0

[1] Unsupported costs are a subset of questioned costs.

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

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
96-4/23093-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 1995 Financial Statements 03/13/1996 and **AUD-2008-2/ FA-09-0034-2** Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007	1	**Significant Deficiency:** Integrating Financial Management Systems	PBGC needs to complete the integration of its financial management systems.
2003-3/23168-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2002 - 2001 Financial Statements 01/30/2003 and **AUD-2008-2/ FA-09-0034-2** Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007	1	**Significant Deficiency:** Entity-Wide Information Security Program Planning & Management	PBGC needs to complete its efforts to fully implement and enforce an effective information security program.
2003-10/23177-2 Review of PBGC's Premium Accounting System 10/10/2003	3	Control weaknesses undermine the quality and integrity of reported premium revenues.	PBGC needs to ensure that its automated system produces accurate and verifiable premium accounting data.
2008-1/FA-0034-1 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2007 - 2006 Financial Statements 11/15/2007 and **AUD-2008-2/ FA-09-0034-2** Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007	8	**Significant Deficiency:** Access Controls	PBGC needs to mitigate the systemic issues related to information access controls.

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

Report Number, Report Title and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
AUD-2009-01/FA-08-49-1 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2008 and 2007 Financial Statements 11/13/2008 and **AUD-2009-02/FA-08-49-2** Limited Disclosure Report on Internal Controls – PBGC's FY 2008 and 2007 Financial Statements 11/13/2009	3	Entity-Wide Information Security Program & Planning Management	PBGC needs to complete the design, implementation and testing of security controls, implement an effective certification and review process, and correct identified access control vulnerabilities.
AUD-2010-09/IT-09-67 PBGC Needs to Improve Controls to Better Protect Participant Personally Identifiable Information (PII) 09/16/2010	5	System control weaknesses placed PII of approximately 1 million participants at risk.	PBGC needs to strengthen security controls and complete a certification and accreditation review of the system housing the PII
AUD-2010-08/IT-09-67 Authorization to Operate PBGC Information Systems 08/18/2010	3	Information technology general support systems and major applications without ATOs required by OMB.	PBGC should seek OMB waiver allowing conditional authorization, based on ongoing efforts to improve information security.
EVAL-2012-5/PA-10-72 PBGC Processing of Terminated United Airlines Pension Plans was Seriously Deficient 11/30/2011	15	Systemic errors and omissions in audits of terminated pension plans	PBGC needs to re-value the UAL plan assets and strengthen the post-trusteeship audit process.
EVAL-2011-10/PA-09-66 PBGC's Plan Asset Audit of National Steel Pension Plans was Seriously Flawed 3/31/11	12	Systemic errors and omissions in audits of terminated pension plans	PBGC needs to re-value the National Steel plan assets and strengthen the post-trusteeship audit process.
This chart complies with Section 5(a)(1), (2) and (3) of the Inspector General Act of 1978, as amended.			

If you want to report or discuss confidentially any instance of misconduct, fraud, waste, abuse, or mismanagement, please contact the Office of Inspector General.

Telephone:
The Inspector General's HOTLINE
1-800-303-9737

The deaf of hard of hearing, dial FRS (800) 877-8339
and give the Hotline number to the relay operator.

Web:
http://oig.pbgc.gov/investigations/details.html

Or Write:
Pension Benefit Guaranty Corporation
Office of Inspector General
PO Box 34177
Washington, DC 20043-4177