

# PENSION

PENSION BENEFIT GUARANTY CORPORATION  
OFFICE OF INSPECTOR GENERAL



SEMIANNUAL REPORT TO CONGRESS  
APRIL 1, 2014 TO SEPTEMBER 30, 2014





# Pension Benefit Guaranty Corporation

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

October 31, 2014

The Board of Directors  
Pension Benefit Guaranty Corporation

I thank the Board for its support of the Office of Inspector General (OIG) and am pleased to present this Semiannual Report for the period April 1, 2014 – September 30, 2014. With the close of this reporting period, I have completed one year as Acting Inspector General during which this office issued an unprecedented number of audit and evaluation reports. In addition to the nine reports issued last period, we issued three audits and evaluation reports with ten recommendations for improvement. We also participated in a government-wide audit of cloud computing initiatives that culminated in a fourth report to which we contributed. We responded to the Ohio Congressional delegation's concerns about PBGC's delayed issuance of final benefit determinations for a pension plan that terminated in 2009. We completed seven investigations, processed 57 complaints, and referred two investigations for prosecution.

**Financial Statement Audit Underway.** We are well into our Fiscal Year 2014 (FY) Financial Statement Audit whose purpose is to express an opinion as to whether the PBGC financial statements are prepared in accordance with prescribed accounting principles and fairly present, in all material respects, the financial condition. OIG contracts with the independent public accounting firm CliftonLarsonAllen LLP (CLA) to conduct the financial statements audit on our behalf, subject to OIG oversight.

**Though Corrective Action Progress Made, Unaddressed Recommendations Create Risk.** As of September 30, 2014, there were 138 audit recommendations open; 107 of these relate to financial statement audit findings, including those in our Federal Information Security Management Act (FISMA) report. This is the lowest number of open audit recommendations in five years. Despite this progress, PBGC still has significant risk. Implementing corrective action on 138 open recommendations is a daunting task, as is establishing mitigating controls in the interim to address risk of delayed corrections.

**PBGC Internal Control Weaknesses Remain.** The Corporation continues to address its pervasive internal control issues that still require an extended time to mitigate the associated vulnerabilities. This includes the three Material Weaknesses and one significant deficiency that comprise the adverse opinion on internal control that was issued for the fifth consecutive year as part of the financial statement audit. In addition to these issues, we continue to find as we go into other areas of the Corporation that internal controls are not in place or operational – poorly understood and executed.

The purpose of internal control is to help an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. This does not appear to be understood throughout PBGC. In both our financial statement and performance audits, we have found control activities are developed and executed "because the auditors require it," rather than that the controls are needed to effectively manage the operations. Further, we are increasingly reliant on senior leadership to provide assurances that – absent evidence of controls and staff ability to articulate how they perform their responsibilities – areas of the system of internal controls are effective.

**47 IGs Send Joint Letter to Congress Asserting Unequivocal Right to Information Access.** I was one of 47 Federal Inspectors General who signed a rare joint letter to Congress to reaffirm the importance of access to information. While the letter was a reaction to the refusals of three agencies to turn over documents (EPA, Peace Corps and Justice) to their respective OIGs, the signatory IGs felt it was imperative to assert the foundational requirements of Section 6(a) of the Inspector General Act:

to have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the applicable establishment which relate to programs and operations.....

The letter noted that "Timely and complete access to information is essential if Inspectors General are to perform their missions." This has since been explicitly affirmed by the Senate and House government oversight committees.

In this challenging internal control environment at PBGC, it is frequently difficult to obtain timely and complete information without repeated requests and clarifications. The agency has not been fully responsive to our requests for information. Access issues have resulted in delays in completing our work and reporting findings to PBGC, the Board of Directors, Congress and the public. This also impedes our ability to economically, efficiently, and effectively perform our oversight mission.

**PBGC Leadership Changes.** In addition to the pervasive internal control challenges at PBGC, changes in leadership occurred at the end of the period when Director Josh Gotbaum left in August and Chief of Benefits Administration, Philip Langham, left in September 2014. Mr. Langham had set an aggressive schedule for change and corrective action in the benefit payments administration area. In response to a Congressional request, we expressed concern that all of the initiatives could be successfully completed and still remain on target to conduct a core mission of calculating and issuing final benefit determinations.

I have effective working relationships with the capable executives who are acting in these respective roles, Alice Maroni and Cathleen Kronopolus, as well as the other PBGC executives leading PBGC. I look forward to continuing our open and frank discussions with both PBGC and the Board during this time of leadership transition to assist PBGC's efforts to improve and modernize processes.

Finally, I note that during my tenure as Acting Inspector General, the critical position of Deputy IG has remained vacant, resulting in organizational challenges in my office. It is only because members of my management team have assumed additional responsibilities that we have been able to accomplish our mission without 25% of the leadership team. I am also fortunate that OIG staff has demonstrated their dedication, innovation, and commitment to excellence during this lengthy time of transition.

Respectfully submitted,



Deborah Stover-Springer  
Acting Inspector General

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# Executive Summary

This Semiannual Report to Congress summarizes the activities and accomplishments of the Pension Benefit Guaranty Corporation (PBGC) Office of Inspector General (OIG) for the period April 1, 2014 through September 30, 2014, inclusive.

The monitoring and reporting of PBGC internal control management remain a high priority for the OIG, guided by the U.S. General Accounting Office's *Standards for Internal Control in the Federal Government*, which sets the standards for an effective internal control system for Federal agencies.

- PBGC made progress in improving program efficiencies and effectiveness, as demonstrated by the OIG's closure of 35 audit recommendations. The 138 open recommendations is the lowest number over the past five years; 107 relate to the financial statement and associated reports.
- Despite these improvements, the overarching issue of internal control management poses challenges for PBGC in five major arenas:
  - Management of the benefits administration and payment program;
  - Information technology security program;
  - Access controls, configuration management and incident response;
  - Broad organizational understanding of internal controls to manage agency programs; and
  - Remediation of a significant number of audit recommendations in a changing environment.

The passage of time for corrective action causes additional risk. More than 50 percent of the remaining open recommendations have been open for two years or longer. Mitigating controls are needed for those weaknesses for which corrective actions will be delayed.

The Ohio Congressional delegation asked us to review PBGC's delay in issuing final benefit determination letters to participants in the 2009 terminated Delphi Salaried Pension Plan, as well as the completion status of particular benefit processes. In our response, we concluded that PBGC's current schedule for completing required work is aggressive, has cascading dependencies, and affords virtually no time for delay. There is substantial risk in PBGC not meeting the milestones of this aggressive schedule, and further risk to the life cycle completion of other projects within BAPD (see pages 10 – 11).

We issued three audit and evaluation reports with 10 recommendations:

- An evaluation of the presence of malicious activity across PBGC's information technology systems, concluding the positive result that the PBGC environment did not display any evidence of attacker activity (see page 12 – 13).

- An audit of the administration of the PBGC pay flexibilities programs – Recruitment, Retention and Relocation Incentives, Student Loan Repayments, and Superior Qualifications – concluded that the PBGC programs did not consistently apply incentives and compensation flexibilities or comply with all regulatory requirements. We also noted that PBGC had begun implementing needed improvements during the course of the audit (see pages 13 – 14).

We also participated with 18 other Offices of Inspector General in a government-wide audit to review cloud computing agency initiatives, resulting in an overarching report with recommendations to the Office of Management and Budget (see pages 14 – 15).

The Acting Inspector General joined with 46 other Inspectors General in a rare joint letter to Congress alerting of refusals by the Department of Justice, Environmental Protection Agency and Peace Corps to provide requested information, which severely impeded the work of associated Inspectors General. We reiterated that the OIG's access to information is complete, unfiltered, and timely (see pages 18 – 19).

In Investigations, we:

- Completed seven investigations, processed 57 complaints, and referred two investigations for prosecution (see pages 19 – 21).
- Issued three Fraud Awareness Alerts to educate pension plan participants, PBGC staff and the general public to the existence of various fraud schemes and how to protect themselves:
  - 2014-01 IRS Tax payment – Refund Telephone Scam
  - 2014-02 Utility Company Fraud Scam
  - 2014-03 Government Grant Fraud Scam

# Introduction

## The Pension Benefit Guaranty Corporation

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

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

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

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

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

## 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.

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

A control environment is the control consciousness of an organization. It is the atmosphere in which people conduct their activities and carry out their responsibilities. An effective control environment is one where people understand their responsibilities, the limitations to their authority, and are knowledgeable, mindful and committed to doing what is right and doing it the right way.

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

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

The first three challenges are Material Weaknesses reported in an adverse opinion on internal control in the financial statement audit for a fifth consecutive year. While PBGC continues its efforts to address these issues and is making incremental progress, the heavy lifting to fully remediate is still to be done. The remaining issues tend to be the most difficult and require remediation activities on a dual track:

- Establish and implement basic controls that should already be in place; and
- Modernize to plan for the future.

Weak or missing internal controls are not limited to financial statement audit findings, as OIG has found deficiencies through our other work. The absence of an effective internal control environment makes it difficult for PBGC to operate efficiently and in a reliable manner. This also increases the risk of waste, inefficient use of resources, poor decisions, errors, loss of records, mistakes and even fraud. In such an environment, the integrity of PBGC records and managerial reports could be questioned by key stakeholders and the agency's reputation can suffer.

PBGC needs to focus on developing an internal controls awareness and consciousness throughout the organization. An initial step is to ensure all senior-level staff is trained in internal control requirements for Federal agencies' set out in the U.S. General Accounting Office's *Standards for Internal*

***Internal control awareness needed throughout organization.***

*Control in the Federal Government*, known as the "Green Book." We find in our completed and ongoing work that even some senior personnel and program managers who are directly responsible for controls lack basic understanding of controls and their responsibilities to implement, maintain and monitor them. It is not enough for PBGC to institute policies and procedures or issue new guidance. PBGC must ensure that knowledgeable and competent personnel perform tasks to prevent and detect errors, irregularities and fraud. Further, it must hold employees accountable for the internal control effectiveness in their respective areas. And, PBGC must actively monitor and enforce the controls.

OIG has observed basic control activities (supervisory review and documentation thereof, reports, reconciliations, etc.) that are only performed in response to OIG inquiry. Sometimes senior levels of management must intervene when those managing day-to-day operations – and who therefore should know this information – cannot explain what they do, how they do it and why. Controls are often executed or even developed "for the auditors" rather than as a part of understanding, distributing and managing agency information. In short, PBGC frequently cannot, or does not, provide to auditors materials that should be readily available for examination. This results in delays in our audit work and leads us to believe that the control environment at PBGC is exceptionally weak.

***Mitigating controls needed for delayed corrective actions.***

## **Progress Made to Remediate Deficiencies but Passage of Time Causes Additional Risk**

In this and previous reports to Congress, we noted the pervasive nature of control issues the Corporation needs to address and the extended time required to mitigate the associated vulnerabilities. Corrective action plans that are to be executed many years in the future must be constantly re-examined for changes in and impact on the operating environment. We recognize that all corrective action cannot occur simultaneously; some processes are very interdependent and many are resource-intensive. However, if corrective action is delayed, the risk of delayed implementation must be considered, and mitigating controls developed or management explicitly acknowledge and accept the risk.

### ***PBGC Continued to Make Progress in Implementing Corrective Actions to Audit Recommendations***

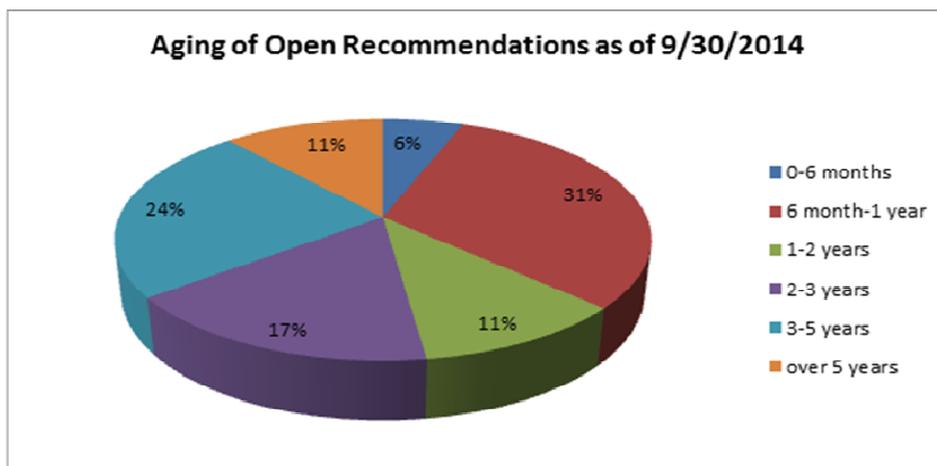
In this reporting period, OIG was able to concur in the closure of 35 audit recommendations resulting in 138 open recommendations as of September 30, 2014. This is the lowest level of open recommendations in five years. More importantly, PBGC completed corrective actions on a number of significant recommendations, some of which had been open for 10 years or more, including:

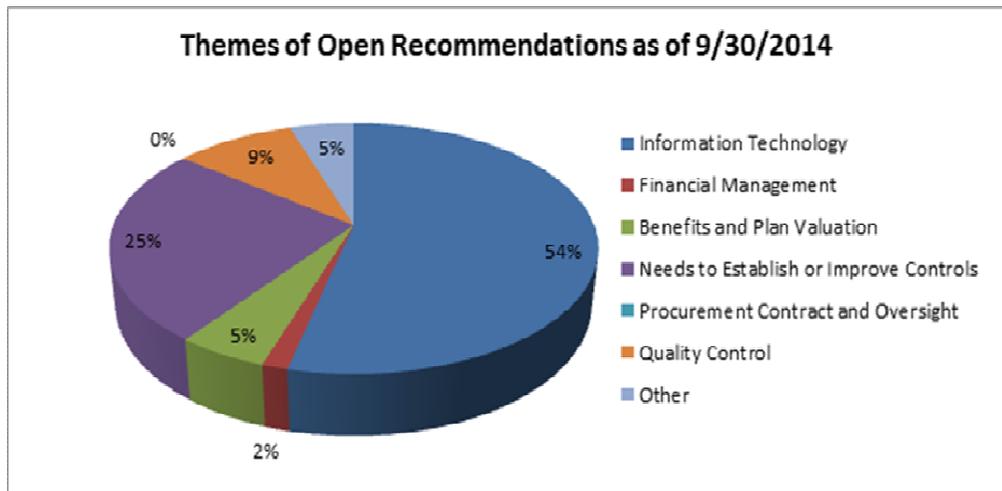
- Implementation of a new long-awaited premium accounting system that was a basis for a significant deficiency in the financial statement audit, which resulted in the closure of three reports and five recommendations issued in FY 2003 or earlier.
- Improvement in the policy and procedures for archiving documentation enabling the closure of a recommendation. This recommendation, issued in FY 2011, was related to Material Weakness 1 *Benefits Administration and Payment Department Management and Oversight*.
- Completion of Security Assessment and Authorizations for general support systems hosted on behalf of PBGC at third parties. Remediation of vulnerabilities identified in PBGC IT systems which resulted in the closure of one recommendation. Issued in FY 2008, this recommendation was related to Material Weakness 2 *Entity-wide Security Program Planning and Management*.
- Improvement in the documentation of the procedures to calculate the interest factors used in estimating the present value of the liability for future benefits resulting in the closure of four recommendations related to Material Weakness 3 *Access Controls and Configuration Management*. These recommendations were issued in FY 2013.
- Revising access controls to a PBGC IT application which resulted in the closure of one recommendation. This recommendation, issued in FY 2011, was related to Material Weakness 3 *Access Controls and Configuration Management*.
- Completed actions on two recommendations related to the development of a centralized and integrated workload strategy to handle a significant surge of participants from terminated pension plans. These recommendations were issued in FY 2011.

**Currently 138 open recommendations —lowest in 5 years.**

**Status of Audit Recommendations**

While PBGC made progress on corrective actions, much work remains. More than 50 percent of PBGC’s audit recommendations have been open for two years or more, and the majority relate to information technology weaknesses.





***Audit Recommendations Dealing with Significant Internal Control Issues Remain***

PBGC has devoted significant efforts to addressing the material internal control weaknesses reported by OIG and submitted 24 proposed closure packages for evaluation of their corrective actions during the financial statement audit. Nonetheless, recommendations dealing with significant internal controls issues remain open. The majority of the recommendations submitted for review related to IT access and configuration management. Evaluation of these corrective actions occurs throughout the financial statement audit substantive testing. As of September 30, only seven recommendations had been closed. However, shortly thereafter, we concluded our recommendation closure analysis and communicated the closure of seven additional recommendations.

***Two important recommendations closed that strategically position PBGC to handle potential workload surge.***

***Closure of Two Key Recommendations – Evaluation of PBGC’s Strategic Preparations for a Potential Workload Influx (Eval 2011-1/PA-09-65)***

As a result of Congressional concern, we evaluated PBGC's processes for planning for a significant surge of participants from terminated pension plans and found PBGC had a disjointed planning process that did not take into account PBGC's heavy reliance on contractors. Our 2011 report had seven recommendations. Though addressing these recommendations had languished, substantial progress began when it was assigned to the Budget Director. He assigned specific staff to address the report's findings and consulted several times with OIG on PBGC's controls. As a result, PBGC submitted narratives and supporting documentation to close two key outstanding recommendations:

1. Develop and implement a cohesive, integrated and centrally managed Workload Surge Strategy Plan with all the roles and responsibilities of the relevant core and support functions and their inter-relationships clearly defined (PBGC-001).

2. Coordinate the Corporation-wide development and implementation of the Workload Surge Strategy Plan with the EMC and key department directors, to include the Director of PD and the Director of HRD. Facilitate this coordination by ensuring that the methodologies used to develop plans are consistent and that key decisions are documented (PBGC-002).

PBGC has incorporated workload influx planning into the annual budget process. PBGC also incorporated influx planning in two revised directives, GA 15-05 (PBGC Corporate Planning Process) and FM-10-1 (PBGC Budget Preparation and Execution Process). The Corporation will also use the existing lists of pension plans that are designated "high risk" and "probable to terminate" to generate projections for budget purposes and workload planning. These corrective actions are important steps in PBGC, ensuring it has the appropriate resources in place and is prepared should the agency experience a surge of terminated plans or a few plans with large numbers of participants. PBGC's comprehensive actions are much improved from prior influx planning; OIG is pleased with PBGC's commitment to closing these important recommendations.

## **Progress Has Been Made, but the Most Difficult Issues Remain to be Addressed**

### ***Benefits Administration and Payment Department***

The Benefits Administration and Payment Department (BAPD) manages the termination process for defined benefit plans and provides participant services (including calculation and payment of benefits) for PBGC trusteed plans. In 2011, PBGC initiated a Strategic Review of BAPD in response to OIG findings of significant weaknesses in the processes that lead to final benefit determinations for participants in terminated pension plans. As a result of the strategic review, BAPD developed a Strategic Review Program with the goal of creating a more efficient and effective benefits administration organization by 2018. The scope and complexity of this undertaking cannot be overstated. The plan contemplates standing up several new divisions and significant reorganization in BAPD while concurrently modernizing its information technology systems.

BAPD restructuring is occurring throughout the department and requires a considerable amount of time to fully execute. The plan for five divisions is in various stages of development. For example, the Asset Evaluation Division (AED), one of two divisions at initial operating capacity, was only established in November 2013. (The Actuarial Services Division has been operating under a Reorganization Memorandum of Agreement since June 2014.) To date, only 2/3 of staff positions have been hired for AED. The three other divisions are under development or part of a future effort.

***Benefit determination changes and organization restructuring are complex and lengthy.***

BAPD as an organization is under stress. Substantial process changes and IT modernization is being planned and implemented concurrently. It has a very incomplete new model while continuing to operate under the limitations of the current structure. We note that the BAPD Director who developed and championed many of the changes resigned in September. BAPD has struggled to process a backlog of work that occurred due to a lack of trained personnel in several areas; the reorganization is in part an effort to address the skills gap by redeploying and realigning organization structure with mission and responsibilities. It is in this backdrop BAPD is developing and implementing corrective actions resulting from OIG recommendations related to systemic issues found in PBGC's processing of plans. Some of these outstanding recommendations support a Material Weakness in PBGC's adverse opinion on internal control issued as part of the financial statement audit. The BAPD challenges were highlighted when members of Congress asked us to look into PBGC's delays in issuing final benefit determinations for certain plan participants.

***Congressional Request Regarding Delphi Salaried Plan Final Benefit Determinations, LTR 2014-13 (September 2, 2014)***  
***(<http://oig.pbgc.gov/pdfs/LTR-2014-09.pdf>)***

On September 2, we responded to the Ohio Congressional delegation's request that the OIG conduct an inquiry into PBGC's delay in issuing final benefit letters to the Delphi Salaried Pension Plan participants and the completion status of particular benefit processes. PBGC terminated and became the trustee of the Delphi Salaried plan in 2009. Participants who had inquired about the status of their final benefit determinations had been told most of the underlying benefit determination processes had not been completed and would extend into the future. They sought assistance from the Ohio Congressional delegation who, in turn, requested OIG to review the agency's delay and report to them.

In its written response to OIG questions, PBGC provided a timeline of actions that would culminate in PBGC beginning to issue final benefit letters in October 2015. Subsequently, we interviewed the BAPD senior managers who will be overseeing the work necessary to meet the promised October 2015 date. From these interviews and OIG knowledge from follow-up on the many BAPD audit recommendations, we concluded that PBGC's current schedule for completing required work is aggressive with cascading dependencies – that is one activity must be completed before the next can begin. This schedule has virtually no cushion for delay. Further, it is being done in an environment of significant operational changes and performance of other high-priority activities. We concluded there are substantial risks to PBGC meeting this schedule including the risk that other important work in BAPD will cease.

***Schedule for issuing  
Delphi salaried  
final benefit  
determinations  
aggressive with no  
cushion for delay.***

## **IT Security**

Progress has been made in some areas but IT continues to be a challenge for PBGC. For example, PBGC took corrective action in multiple areas within the IT control environment that address the two IT-related Material Weaknesses in the financial statement audit's adverse opinion on internal control.

- The Corporation has established controls and procedures to ensure systems undergo a Security Assessment and Authorization (SA&A), a key baseline control for all government applications. PBGC has now completed SA&A's for 17 out of 20 systems. This is an accomplishment for PBGC. In 2009, PBGC asserted it completed 13 SA&A's, but we found that the SA&A's were either not completed or were of poor quality with inadequate management oversight. We commend PBGC on implementing a more rigorous review process and ensuring that key systems have the foundational controls to protect information entrusted to the Corporation.
- PBGC has also strengthened access controls and reporting surrounding its Plan of Action and Milestones (POA&M).
- Vulnerability and patch management has improved. Three years ago, patching and vulnerability management was a serious internal control weakness. Now, OIT has assigned managers and staff who have developed work plans and coordinate their efforts. These managers and OIT senior leaders meet quarterly with OIG to report their activities and engage in open dialog. OIG is encouraged by the continued process improvements that these OIT professionals have demonstrated over the past year.

IT is a moving and evolving target; PBGC is not unique among Federal agencies in this struggle. Security incidents and hacking attempts are challenges that private and public sector organizations face daily. The breaches at Target and Apple show more must be done to secure and protect customer data. We previously reported serious security incident response weaknesses in the narrative FY 2013 Federal Information Security Management Act report. Those weaknesses were demonstrated in PBGC's response to a phishing attempt, and we immediately initiated work to conduct a security evaluation, below.

PBGC recently hired a Chief Information Security Officer; one of his priorities is improvements in PBGC's incident response program to face challenges from threats abroad, domestically and internally. Chief Information Officer (CIO) Barry West has been a driving force in IT accomplishments for the past 19 months. We note that, after the reporting period ended but before this report was issued, CIO West announced he was leaving PBGC for a CIO and Chief Privacy Officer position at another Federal agency.

***PBGC has made some progress in addressing IT Material Weaknesses.***

# OIG Work to Address Management Challenges and Strengthen Internal Controls

OIG has devoted its resources to audit and investigative work to address the major performance and management challenges that face PBGC in carrying out its missions. We are also focused on the corrective actions that PBGC has taken or initiated in response to OIG findings and determining where further actions are required. For five years, we have reported an adverse opinion in internal control at PBGC. The internal control problems are the result of deficiencies in execution and oversight of PBGC programs, the data and data systems needed to manage these programs, and efforts to safeguard program integrity. Given the nature and extent of the challenges facing PBGC, it will take time and sustained attention from senior officials to implement reforms and assess their impact. OIG will continue to assess whether the control environment at PBGC allows management to 1) set agency goals and objectives, 2) compare actual to planned performance levels, and 3) improve performance through understanding variances from expectations and, as needed, taking timely and appropriate actions to correct problems.

## ***Performance Audits and Evaluations***

### ***Security Evaluation of the Pension Benefit Guaranty Corporation Information Technology Environment, Eval-2014-12/IT-14-104 (September 16, 2014)***

***<http://oig.pbgc.gov/pdfs/Eval-2014-12IT-14-104.pdf>***

In our FY 2013 Federal Information Security Management Act (FISMA) report we identified major weaknesses within the PBGC Information Technology Incident Response Program. The findings in that report were born out in PBGC's initial response to a February 2014 phishing attempt and their delayed and inadequate responses to OIG follow-up. This prompted OIG to procure the services of Mandiant, a world-renowned provider of advanced endpoint security products and incident response solutions. Under our oversight, Mandiant recently completed a Compromise Assessment to evaluate the potential presence of malicious activity across PBGC systems.

As of the date of completion, it was determined that the PBGC environment did not display any evidence of attacker activity. This was a positive result. Other issues identified aligned with OIG's observations of weaknesses within the incident response program, as reported in the FY 2013 FISMA report. This limited disclosure report included four recommendations. PBGC agreed with

<sup>1</sup> Fiscal Year 2013 Federal Information Security Management Act (FISMA) Independent Evaluation Report (EVAL-2014-9/FA-13-93-7), <http://oig.pbgc.gov/pdfs/FA-13-93-7.pdf>

***IT Security  
Comprise  
Assessment found  
no evidence of  
attacker activity.***

all recommendations and has already begun taking action to secure PBGC data. Other positive highlights we reported were that the PBGC environment remained stable throughout the testing and PBGC IT personnel were professional and timely in ensuring all parties received the necessary information and support to conduct this evaluation.

***PBGC's Incentives and Compensation Flexibilities Program To Recruit and Retain a Qualified Workforce Was Administered Inconsistently, AUD-2014-10/PA-12-86 (September 30, 2014)***  
***(<http://oig.pbgc.gov/pdfs/PA-12-86.pdf>)***

We conducted an audit of the PBGC Recruitment, Retention and Relocation (3Rs) Program, Student Loan Repayment (SLR) Program, and Superior Qualifications and Special Needs Pay-Setting Authority to assess whether PBGC's administration of incentive awards complied with statutes, regulations and Office of Personnel Management (OPM) policies and procedures. We also determined if the controls around these programs were in place and operating effectively. Overall, we found PBGC's program did not consistently apply incentives and compensation flexibilities (flexibilities) related to recruitment and retention, and did not comply with all regulatory requirements. This occurred because the programs did not have effective governance or adequate controls, including complete policies and procedures. As a result, student loan benefits and incentives were awarded with varying levels of documentation and support which resulted in some mandatory criteria not being applied and justifications not being consistently and completely documented. During our two-year review period, PBGC spent more than \$2 million dollars in pay flexibilities.

This report included six recommendations, two of which were closed at the time of report issuance, based on documentation PBGC provided after the discussion draft report. PBGC did not agree with the recommendations in this report. We worked diligently with PBGC to ensure this report accurately reflected the conditions we found during the scope of our audit but also gave appropriate credit for corrective efforts undertaken during the audit. Despite the Corporation's disagreement with our findings, we were pleased that PBGC has already taken corrective action to mitigate weaknesses within this key Human Resources Department program. PBGC has implemented a new directive for 3Rs, circulated a draft directive for the SLR program, increased required documentation related to the hiring of law clerks, and has begun conducting annual reviews of 3Rs participants. The aforementioned corrective actions align with our findings and recommendations, regardless of the disagreement; PBGC has already begun to address our findings.

We observed that PBGC interpreted OPM's regulation for the calculation of the maximum retention incentive amount (5 CFR § 575.309) differently than other Federal agencies. Two Federal agencies interpreted the CFR language "may not exceed 25% of an employee's basic pay" as establishing that 25%

***Incentives and pay flexibilities programs need additional internal controls.***

was the maximum retention incentive that could be paid, whether paid for one year or over several years. PBGC had a different understanding of the retention incentive regulation. It believed that an agency could pay the maximum retention incentive (25%) each year over a multiyear service agreement. We sought written clarification from OPM and found that PBGC correctly interpreted the calculation methodology. In its clarification letter, OPM stated it would take steps to ensure consistent interpretation across the Federal government.

***Intra-Governmental Audit of Cloud Computing  
IT-14-100 (September 2014)***

***<http://www.ignet.gov/randp/Cloud%20Computing%20Initiative%20Report.pdf>***

We evaluated the Corporation's efforts to adopt cloud-computing technologies and reviewed executed contracts with cloud service providers, as part of a government-wide audit initiative of the Council of Inspectors General for Integrity and Efficiency (CIGIE). PBGC OIG and 18 other Offices of Inspector General participated in this evaluation. Our review focused on two PBGC systems. We completed a CIGIE provided matrix and timely submitted our responses based on documented analysis and interviews with key stakeholders. In total CIGIE reviewed 76 contracts with a total value of nearly \$1.6 billion.

The CIGIE report included four recommendations directed to the Office of Management and Budget (OMB) as the corrective actions are to be applicable government-wide, and included:

- Establish standardized contract clauses that agencies must use when adopting cloud computing technologies;
- Determine how best to enforce FedRAMP (The Federal Risk and Authorization Management Program) compliance;
- Establish a process and reporting mechanism to ensure Federal agencies require Cloud Service Providers to meet the FedRAMP authorization requirements in a timely manner; and
- Incorporate routine reviews of agency information system inventories into the continuous monitoring process.

We encouraged PBGC to review the report and consider CIGIE's recommendations as PBGC moves forward in using cloud solutions.

OIG is in the process of drafting a report with findings and recommendations specifically related to PBGC's cloud contracting activities.

***Cross-government  
review of cloud  
computing  
recommended  
improvements to  
OMB.***

## **Ongoing Performance Audits**

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

Just after the close of the reporting period, on October 9, 2014, we issued a draft report outlining our findings and recommendations and scheduled the exit conference and agency response date. The objective of the audit was to evaluate PBGC's corrective actions in response to OIG Management Advisory Report (MAR), *Ensuring the Integrity of Policy Research and Analysis Department's Actuarial Calculations*. Our audit also included a review of PBGC's reported response to Congress as a result of the MAP-21 legislation that required PBGC to: (1) complete OIG's recommendations, including developing quality assurance policies and procedures and conducting a records management review, and (2) to submit to Congress a timetable for addressing outstanding OIG recommendations. PBGC agreed with all MAR suggested corrective actions and provided Congress with a listing of corrective actions and timetable; all items were to be completed by June 30, 2013.

The final report will be issued by the end of the calendar year.

### **Audits of PBGC's Multiemployer Insurance Program**

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

As a result of a comprehensive audit survey, we are conducting a series of audits with a multi-phased approach focused on four discrete PBGC operations related to multiemployer plans. We are concluding our first audit that assesses PBGC's process for reviewing and approving financial assistance requests and drafting the report. We have initiated the second audit that will review and recompute the benefits of a sample of multiemployer plans' participants.

**Multiple audits  
being conducted in  
PBGC's  
multiemployer  
program that  
determines  
financial assistance  
payments.**

### ***Review of Selected Aspects of PBGC's Multiemployer Financial Assistance Process***

Our audit of the multiemployer financial assistance process spanned from 1985 to the present and includes our assessment of PBGC's review, approval, and payment processes for the financial assistance paid to insolvent plans. The purpose of this audit was to assess the effectiveness, accuracy, and completeness of selected aspects of the financial assistance review approval and payment process. An additional objective was to determine whether PBGC's financial assistance policies and procedures were adequate for the detection of fraud, waste, and abuse in multiemployer plans.

We will issue the draft report within the next reporting period.

### ***Verification of Benefit Computations in PBGC's Multiemployer Insurance Program - Financial Assistance Process***

The overall objective for our second audit in this series is to review the accuracy of the benefit calculations and payments made by insolvent plans receiving financial assistance from PBGC. Specifically, we will (1) verify the accuracy of the original benefit computations performed by the plan's actuary and whether benefit payments are being made to eligible participants, and (2) verify the benefits were properly cut back to the PBGC guaranteed level in accordance with ERISA Section 4022A. We have engaged a public accounting firm with actuarial expertise in pension benefits to recalculate the benefits and are in the process of gathering source documents from the pension plans necessary to support the benefits.

We plan to issue this draft within the next reporting period.

During our work on both of the above audits, we experienced some reluctance from PBGC to provide information and later discovered critical information required to complete our work was readily available but was not disclosed. Although the OIG did finally receive the information we were seeking, it was not provided until after our auditors had completed their fieldwork and were drafting their report. We discussed this access issue with PBGC executives who assured us that, going forward, PBGC management and staff would fully cooperate with OIG and provide full and timely access to information required to accomplish our work. Subsequent to these conversations with senior leadership, however, key multiemployer program officials communicated to OIG multiple steps they wanted OIG to follow in conducting our audit. They concluded: "If OIG elects to work independent of MEPD during the next 8-10 weeks, I believe you will miss an opportunity to make use of our institutional knowledge...." Independence is the bedrock principle of conducting audits in accordance with Government Auditing

***OIG examining benefit calculations to verify accuracy of financial assistance payments.***

Standards. OIG will not conduct our audits in accordance with agency direction or preference; rather we will appropriately seek information from program officials charged with responsibility for managing the operations. When reported to PBGC leadership, they assigned another PBGC official knowledgeable and experienced with the multiemployer program as liaison for the audits.

### ***OIG Internal Report on PBGC's Cloud Computing Environment.***

As a result of work we conducted while participating in the CIGIE cloud computing audit, OIG will also issue a separate report with findings and recommendations specific to PBGC. Our report will focus solely on PBGC's efforts, whereas the CIGIE initiative is a synopsis of cloud computing efforts across government agencies. We anticipate issuing a draft report in the first quarter of FY 2015.

## ***Financial Audits and Other Related Work***

### ***FY 2013 Audit of PBGC's Compliance with the Implementation of the Improper Payments Information Act, AUD-2014-11/ PA-14-99 (April 10, 2014)***

***(<http://oig.pbgc.gov/pdfs/PA-14-99.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. Each year we focus on a different stream of payments for testing; this year we selected the payments related to procurement activities, including the purchase card. 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.

### ***Ongoing Financial Audit and Other Related Work***

#### ***Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2014 and 2013 Financial Statements***

We are conducting our FY 2014 Financial Statement Audit whose purpose is to express an opinion as to whether the PBGC financial statements are fairly presented in all material respects and prepared in accordance with prescribed accounting principles. OIG contracts with the independent public accounting firm CliftonLarsonAllen LLP (CLA) to conduct the financial statements audit on our behalf, subject to OIG oversight. CLA will audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by PBGC as of and for the years ended September 30, 2014 and 2013.

***Improper payments  
audit found PBGC  
in compliance.***

### ***FY 2014 Federal Information Security Management Act Submission to the Office of Management and Budget and the Independent Evaluation Report***

The Federal Information Security Management Act (FISMA) requires IGs to conduct an annual evaluation of their agency's security programs and practices and to report to Office of Management and Budget the results of their evaluations. OIG contracts with CLA to independently assess whether the agency is applying a risk-based approach to their information security programs and the information systems that support the conduct of agency missions and business functions. No later than November 17, 2014, we will issue to the OMB the annual FISMA-required template report prepared by PBGC and evaluated by the OIG.

Each year, we also issue a narrative evaluation report of deficiencies found during our FISMA review with corrective action recommendations.

### ***FY 2014 Vulnerability Assessment and Penetration Testing Report***

As part of the annual financial statement audit, CLA assesses the PBGC information security infrastructure to discover possible weaknesses in logical security controls and to exploit discovered vulnerabilities. The assessment is in process; we will brief the results and issue a report in the second quarter of FY 2015.

## **Inspectors General Joint Letter to Congress**

***Complete, unfiltered and timely access to information is a fundamental OIG right.***

### ***Access to Information Is Fundamental*** ***(<http://oig.pbgc.gov/pdfs/LTR-2014-08.pdf>)***

On August 5, 2014, the PBGC Acting Inspector General and 46 other Inspectors General sent a joint letter to Congress to alert them of serious access to records limitations that impeded the work of the Inspectors General of the Department of Justice, Environmental Protection Agency, and Peace Corps. This letter unequivocally stated the "principle that an Inspector General must have complete, unfiltered, and timely access to all information and materials available to the agency that relate to that Inspector General's oversight activities, without unreasonable administrative burden....Refusing, restricting, or delaying an Inspector General's access to documents leads to incomplete, inaccurate, or significantly delayed findings or recommendations, which in turn may prevent the agency from promptly correcting serious problems and deprive Congress of timely information regarding the agency's performance."

Both the Senate and House government oversight committees held hearings addressing IG access to information in early September; they expressed strong support for unfettered access and have reached out to the Office of Management and Budget to ensure Federal agency and entity leaders understand Inspectors General access rights.

## Investigative Results

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

In addition to investigations, we undertook several initiatives to prevent fraud. We issued multiple fraud alerts this period warning PBGC employees and participants of significant fraud schemes and ways to protect themselves. We also traveled to all PBGC Field Benefit Administration (FBA) Offices to conduct Outreach and Fraud Awareness Briefings. These FBAs are wholly-contracted offices conducting business on behalf of PBGC with both retirees and those not yet receiving a pension benefit. The special agents met with staff members to emphasize their “front-line” responsibility in protecting PBGC from potential fraud, educate them about various scams and fraud indicators, where and how to report to the OIG, and address possible misconduct, fraud, and waste in PBGC programs and abuse perpetrated against plan participants.

We also took steps to enhance our law enforcement professional standing by voluntarily participating in a peer review, securing IT connections to law enforcement records systems, acquiring modern equipment, and pursuing statutory Federal law enforcement authority.

### **Alleged Management Hostility**

The investigation by OIG of alleged workplace violence is a responsibility that is often overlooked. During this period the OIG investigated an allegation that a PBGC manager had created a hostile work environment for a direct report employee. Our office was notified of the incident after the employee reported feeling threatened and the police were called to the workplace. OIG criminal investigators interviewed witnesses identified by both the employee and manager

***Investigation  
cleared manager of  
alleged  
wrongdoing.***

involved in the situation. We found the original allegation was unsubstantiated, as no witnesses corroborated the employee's complaint concerning the manager's actions. The report of investigation was referred to PBGC Senior Management for appropriate administrative action.

## **Alleged Non-Receipt of Annual Payments**

The investigation of allegations involving missing benefits is a matter the OIG investigates vigorously. However, there are times when the investigation of these allegations brings to light the vulnerability of the participant stakeholders that PBGC services. Such was the case in our investigation of a participant's allegation he had not received his annual pension payment for several years. As the result of issuing a subpoena for the participant's bank records and through collaborative work and communication, the OIG was able to determine that the participant had actually received and cashed their check and was in fact suffering from a cognitive impairment.

## **Money Transfer Scam**

The OIG investigates many original and innovative attempts to defraud and take advantage of unsuspecting victims around the country. One common scam is the use of counterfeit checks that greatly exceed the value of products ordered to make purchases. Unsuspecting sellers are often convinced that the overage of the check received was a mistake and that the seller can cash the check and send the purchaser the difference. However, in these scams, the seller assumes all of the risk for the counterfeit check and often has to refund money to the banking institution.

During this period, we investigated an allegation involving an attempt to use a counterfeit PBGC participant check to purchase cosmetic products. According to the victim, an individual placed a \$300 dollar order for cosmetics via an email account. The victim then received a check for more than \$2,000 followed by an email from the purchaser explaining she realized she was overpaying for the products. The email then directed the victim to cash the check, take out the amount owed for the products, and mail the difference to the purchaser. Once reported to the OIG, it was determined that not only was the participant information fraudulent, but the address and banking information as well. We took investigative steps to ensure the victim was not the actual perpetrator of the scam and that there was no loss

***Counterfeit check  
scam averted.***

to PBGC or the victim. Despite many searches, we were not able to locate the person who sent the fraudulent check.

## Fraud Awareness Alerts

The OIG continues to inform and educate pension plan participants, PBGC staff and the general public to the existence and operating premises of various fraud schemes. These schemes target unsuspecting individuals and seek to defraud them of money, sensitive personal information, or both. In this reporting period, we generated and coordinated the publication of three Fraud Awareness Alerts concerning the following issues:

- 2014-01 IRS Tax Payment - Refund Telephone Scam involves unsolicited telephone contact by persons claiming to be representatives of the Internal Revenue Service (IRS) demanding payment of taxes. The caller will either 1) aggressively claim the victim owes Federal taxes, or 2) inform the victim the Federal government owes them a tax refund. The Treasury Inspector General for Tax Administration (TIGTA) has identified approximately 1,100 victims who have lost an estimated \$5 million from these scams.
- 2014-02 Utility Company Fraud Scam is an identity theft scam that involves an individual receiving a phone call from someone posing as a representative of a public utility service company. The caller will claim the victim's public utility service is scheduled to be terminated unless immediate payment is made. The imposter suggests payment be made via the use of a "Green Dot" Visa credit card, which the victim can purchase from the imposter. The imposter will then request personal financial information from the victim in order to "process" the purchase of the "Green Dot" Visa credit card.
- 2014-03 Government Grant Fraud Scam involves an individual receiving a phone call or email from someone purporting to be a government official. The caller or writer will claim the victim is entitled to a government grant. The caller/writer informs the victim that in order to receive the government grant, the victim must pay a processing fee. The caller/writer may already be in possession of the intended target's name and address. The victim is further solicited for additional personal financial information.

***Three fraud alerts warned PBGC and participants of fraud schemes and how to protect themselves.***

## ***External and Internal Investigative Activities***

### ***Voluntary Peer Review***

***Investigative  
program  
participating in  
voluntary peer  
review.***

To ensure that OIGs are operating efficiently and with a benchmark of integrity, peer reviews are conducted under the guidance of the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Though not required because we do not yet carry firearms, we requested peer review of our investigative operations; the Library of Congress Office of the Inspector General was assigned to conduct it. The peer review was conducted using the CIGIE Qualitative Assessment Reviews Guidelines for Investigative Operations of Offices of Inspector General. The purpose of the review is to ensure that our investigative function is meeting the general and qualitative standards adopted by CIGIE. Final published results of the peer review are pending.

### ***Statutory Federal Law Enforcement Authority***

Much of the investigative work conducted by PBGC-OIG criminal investigators is very similar to that of other Federal law enforcement agents who possess statutory Federal law enforcement authority. Full statutory law enforcement authority includes extensive training in firearms and use of non-lethal weapons and tactics, carrying firearms, and executing search warrants. Historically, the fact that PBGC-OIG agents have lacked this authority has placed them at a severe disadvantage when conducting investigations, limiting our ability to conduct some investigations, including joint investigations, and subjecting the investigators to potential danger or harm. During this reporting period, the PBGC-OIG worked collaboratively with the Office of the Attorney General at the Department of Justice and the Special Deputation Unit at the U.S. Marshals Service to seek this authority. Prior to submitting our application for statutory authority, the OIG took action to ensure its special agents are in full compliance with what is required, including mandating that each special agent maintains firearm training proficiency on a recurring basis at the Federal Law Enforcement Training Center in Cheltenham, Maryland and reviewing our investigative policies and procedures.

## ***Allegation Processing Working Group***

The Assistant Inspector General for Investigations (AIGI) serves as the OIG representative to a working group comprised of PBGC Senior Management and the PBGC-OIG to focus on the timely and standardized processing of allegations of misconduct. The PBGC members are the Director of the Human Resources Department and the Deputy General Counsel of the Office of General Counsel. The group meets on a monthly basis in an effort to de-conflict issues which may have a nexus to both the PBGC and the OIG, with the common goal of streamlining the adjudication of such allegations and complaints and educating employees, contractors and the public on where and how to file complaints.

## ***Data Analytics Pilot Project***

The PBGC OIG continues to broaden its proactive approach to conducting investigations. One proactive approach underway is to employ data analytical solutions to expedite parsing of large data sets at PBGC with the result of associating data elements to develop investigative leads. In September of 2014, we secured expert data analytics services to initiate a two-phase pilot project focused on developing recommendations for improved process efficiencies related to examining set sub-populations of data (structured and unstructured in paper and electronic formats) owned by PBGC. This data analytics project will examine multiemployer pension plans' structured and unstructured data from multiple sources within PBGC.

***OIG kicking-off  
data analytics  
project.***

# Other OIG Statutory Reporting

## ***Access to Information***

***Impediments in access to information have delayed our work.***

Section 6(a) of 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. In addition to the IG Act, Senators Grassley and Coburn have asked each Inspector General to report semiannually to them whether access to requested information has been denied or impeded.

Although we have not been completely denied access during this reporting period, it has become more common recently for requested information to be provided only after several requests, after draft findings are shared, or senior leaders are involved. Access issues have resulted in delays in completing our work and reporting findings to PBGC, the Board of Directors, Congress and the public. This also impedes our ability to economically, efficiently, and effectively perform our oversight mission.

We believe this is, in part, due to poor controls of the program under review, and a lack of understanding of controls' importance; however, in some cases we experienced an unacceptable delay in the disclosure of relevant information. I have raised this issue with senior PBGC leadership, including the Acting Director. PBGC leaders have pledged to improve the OIG's access prospectively. We are hopeful that we will be able to resolve access issues at PBGC and not require either Board or Congressional intervention.

## ***Management Decisions***

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

## ***Review of Proposed Statutory and Regulatory Changes***

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

# Other OIG Activities

## *International Briefings for Indonesian Accountability Officials*



At the request of former PBGC Inspector General Rebecca Batts, OIG hosted a visiting delegation from various senior government accountability professionals and the Indonesian Corruption Eradication Commission, Komisi Pemberantasan Korupsi (KPK). KPK is Indonesia's anti-corruption agency that was established in 2003 in response to the systemic and widespread corruption in the country. OIG shared its perspective on:

- **The U.S. Federal Inspector General Function.** OIG leaders, including the Acting Inspector General, Assistant Inspector General for Audit, Assistant Inspector General for Investigations, IT Audit Manager, and Financial Statement Audit Manager, discussed the source of our authorities and the differences between a traditional internal audit function and a Federal inspector general function. In a highly interactive session, we discussed the importance of professionalism and various ways OIG's institute controls and practices to ensure that audits and investigations are conducted in accordance with all applicable standards. Another topic was the relationship between the OIG and the agency for which is it responsible – techniques to maintain and foster an appropriate independent yet professionally-collaborative relationship.
- **Independence.** The Assistant Inspector General for Audit (AIGA) participated in a panel discussion with AIGAs from the U.S. Agency for International Development, Federal Reserve Board, and National Science Foundation about the vital importance of independence. The AIGAs provided insight on how, in practice, they are able to stay true to this first principle of the IG community. The US and Indonesian officials shared an understanding about how important independence is to the credibility of

*OIG hosted Indonesian group to discuss accountability and controls.*

the work performed by their offices. The Inspector General Act of 1978, as amended, gives most Federal offices of Inspectors General a significant level of organizational independence.

## Small Agency Oversight Working Group

***Acting Inspector General leads an IG working group to propose oversight models to Congress for small Federal entities.***

The Acting Inspector General, as co-lead of a newly-formed working group comprised of 15 Inspectors General, has taken on a significant leadership role in a project potentially impacting the entire Inspector General community, focusing on an important legislative initiative to promote public trust. Members of Congress have noted that 60 small Federal entities without an OIG are responsible for more than one billion dollars in annual expenditures and would benefit from OIG oversight. These small entities vary in mission, level and sources of funding, governance structure, legal authority, and public visibility. Creating a framework for effective and economical oversight that enhances public confidence in governmental processes and decision making presents many practical challenges that warrant discussion by experienced IGs. Thus, the working group was formed to provide Congress proposals for “right-sized” oversight for these identified entities.

The Acting Inspector General detailed a seasoned Senior Executive Service employee, Joseph Gangloff, from the U.S. Office of Government Ethics to serve as Special Counsel to the Inspector General. Mr. Gangloff is the project manager for the working group. The AIGA and an auditor from our office also worked closely with Mr. Gangloff in executing this fast-track, high-profile project. Under his leadership, the working group compiled extensive background information and coordinated comprehensive agency-specific research as a solid foundation for deliberations and analysis. The inclusive analysis and deliberations – inviting and incorporating contributions from a wide range of stakeholders – resulted in a clear consensus among working group members, an important accomplishment given that the participating IGs initially approached the project with divergent viewpoints. The working group is now preparing proposals to provide each small entity with oversight appropriate to the risks presented. The Acting Inspector General and other working group principals have discussed the working group’s project with Congressional staff and have laid the groundwork to provide timely input to interested parties as a draft bill evolves.

## Continuous Learning Series

In an effort to help promote a continuous learning environment within the OIG, earlier this year we kicked-off an initiative we have coined “The Continuous Learning Series” (CLS). The goal is to deepen OIG’s knowledge of PBGC and the pension environment in general. An integral part of this continuous learning

initiative includes inviting a variety of internal and external speakers to present to all OIG staff and engage in an informal question and answer session. Thus far this year, the OIG has sponsored six CLS presentations, including presenters such as the PBGC Director, the PBGC Chief of Benefits Administration, and the Managing Director for Education, Workforce and Income Security Issues at the U.S. Government Accountability Office covering such areas as:

- PBGC’s challenges and priorities;
- Pension risks;
- Recent and proposed PBGC premium changes;
- Structural changes within BAPD;
- Multiemployer plan primer; and
- Description of and uses for the Form 5500, Annual Return/Report of Employee Benefit Plan.

## Leadership and Resilience Training

OIG has a strong commitment to training and staff development and invests accordingly in our people. We believe that this focus has been a major factor in the ongoing success of the office and will position us to continue impactful work in the future.

- **Lincoln Leadership Institute.** All OIG executives and senior leaders attended this one-week residential leadership program in Gettysburg, PA. This course, "A Transformational Journey from Gettysburg," was prepared for Federal OIGs and offered to us through the Council of Inspectors General for Integrity and Efficiency (CIGIE). Principles of leadership, followership and organizational effectiveness were made vivid and alive through experiences on the battlefields and studying Lincoln’s Gettysburg Address. The course also focused on ways to make these principles actionable concepts and strategies that can be applied to the situations and unique challenges in the IG community.
- **Resilience Training for OIG.** All OIG team members took resilience training offered on-site through Brookings Executive Education and Dr. Shatté, who has been researching resilience and stress for over two decades. The course provided insight on how to capitalize on existing resilience strengths and bolster any areas of weakness, gave a framework for identifying thinking styles and assessing how they may be helping or hurting performance, and taught practical skills to help with more flexible and accurate thinking, for improved resilience and

***OIG provided  
Brookings  
Executive  
Education  
resilience training  
to all Staff.***

success. It was highly beneficial that the entire office learned the same content and experimented together in its application, resulting in a new shared vocabulary and framework.

Executives and senior OIG leaders took additional training on factors that make a resilient leader: how to model resilience, mentor people in resilience, and create a workplace where employees' resilience can flourish.

***CIGIE held multiple training classes at PBGC.***

## **PBGC Saved Training Costs for IG Community**

Again this period, PBGC provided training space to the Council of Inspectors General for Integrity and Efficiency (CIGIE) at no cost. We arranged for the OIG community to use PBGC's state-of-the-art training facilities, allowing CIGIE to conduct multiple training classes, such as the two-week "Introductory Auditor Training," "Introduction to Suspension and Debarment for Auditors, Inspectors, Evaluators, Attorneys," "Inspector General Authorities," and "Writing Effective Reports." More than 155 participants from 28 OIGs across the community were trained at a significant cost-savings because CIGIE did not have to rent training facilities.

## **OIG Senior Leader Receives PBGC Honorary Award**

Assistant Inspector General for Audit Rashmi Bartlett was honored with PBGC's 2014 Community Service Award during the Annual Award Ceremony for her work as a volunteer courier for the National Marrow Donor Program (NMDP). She is one of 300 volunteer NMDP couriers who transport bone marrow or blood stem cells used in transplantation from where the donation took place to where the patient is being treated. She got involved in this work after she herself was a stem cell donor to an anonymous patient with Non-Hodgkins Lymphoma in 2009. Her work takes her both to domestic and international locations.



## ***External and Internal Professional Activities***

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

- Assistant Inspector General for Audit Rashmi Bartlett serves on the Federal Audit Executive Council.
- Audit Manager Joseph Marchowsky serves on the Accounting and Audit Policy Committee, which is a permanent committee established by the Federal Accounting Standards Advisory Board. Federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable. The AAPC issues technical releases related to existing Federal accounting standards. AAPC's technical releases are a form of authoritative guidance for generally accepted accounting principles for Federal entities. Mr. Marchowsky also serves as the Chair of the Agenda Committee which considers issues submitted to the AAPC and recommends to the AAPC whether to add the issue to the agenda.
- IT Audit Manager Jarvis Rodgers continued participation in the FY 2014 Inspector General Focus Group to refine and discuss the OIG Federal Information Security Management Act (FISMA) metrics. Team members across the IG community previously received a CIGIE award for participation in this very important effort and we continue to support and encourage our team to assist the broader OIG community.
- Special Agent in Charge Curtis Flood serves as the Chairman of the Data Analytics Working Group (DAWG) for the CIGIE Information Technology Committee. The DAWG is comprised of investigators, auditors, IT professionals and operational support staff from many OIGs. Its purpose is to develop a collaborative centralized web-based platform to compile and consolidate data analytic resources for OIG community use. In July the DAWG launched a data analytics site on web space managed by the Office of Management and Budget .
- A Senior Auditor participated in the CIGIE Media and Public Communications Council which serves as a collaborative space for IGs who communicate with the media and other stakeholder groups. Quarterly meetings provide networking opportunities and can involve media contacts internal and external to government, whereby participants explore ideas and best practices for communications and ways to help increase public understanding of IG work.

***OIG Staff  
participated in a  
wide-variety of IG  
community  
activities.***

- A Senior Auditor participated in the CIGIE Training Institute, Inspector General Audit, Inspection and Evaluation Academy for Introductory Auditors (IA-1402 and IA-1403). This course is designed for entry-level Inspector General auditors with less than 6 months of experience who will use Government Auditing Standards in conducting their work. The senior auditor joined a cadre of experienced auditors from across the Inspector General community in presenting effective ways to communicate audit results.
- As a member of Women in Federal Law Enforcement (WIFLE) and attending the annual conference, a Special Agent engaged in flash mentoring sessions with four (4) different executives from the U.S. Secret Service, Bureau of Prisons, Immigration and Customs Enforcement, and the Internal Revenue Service. Each mentor spoke candidly of their struggles, sacrifices, achievements, and goals as related to the balance of a career in law enforcement and their personal lives.

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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.

| <b>Inspector General Act Reference</b> | <b>Reporting Requirements</b>  | <b>Page</b> |
|--|--|-------------|
| Section 4(a)(2)                        | Review of legislation and regulations.   | 24          |
| Section 5(a)(1)                        | Significant problems, abuses, and deficiencies.  | 5-23        |
| Section 5(a)(2)                        | Recommendations with respect to significant problems, abuses, and deficiencies.  | 5-23        |
| Section 5(a)(3)                        | Prior significant recommendations on which corrective action has not been completed.   | 35-36       |
| Section 5(a)(4)                        | Matters referred to prosecutorial authorities.   | 32          |
| Section 5(a)(5)                        | Summary of instances in which information was refused.   | 24          |
| Section 5(a)(6)                        | List of audit reports by subject matter, showing dollar value of questioned costs and recommendations that funds be put to better use.     | 34          |
| Section 5(a)(7)                        | Summary of each particularly significant report.   | 5-23        |
| Section 5(a)(8)                        | Statistical table showing number of reports and dollar value of questioned costs.  | 34          |
| Section 5(a)(9)                        | Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.                           | 34          |
| Section 5(a)(10)                       | Summary of each audit report issued before this reporting period for which no management decision was made by end of the reporting period. | 24          |
| Section 5(a)(11)                       | Significant revised management decisions.  | 24          |
| Section 5(a)(12)                       | Significant management decisions with which the Inspector General disagrees.   | 24          |

## SUMMARY OF AUDIT AND INVESTIGATIVE ACTIVITIES

For the Six-Month Period Ending April 1, 2014 through September 30, 2014

### Audits/Evaluations Issued

|                           |    |
|---------------------------|----|
| Number of Reports         | 3  |
| Number of Recommendations | 10 |

### Management Decisions

|   |     |
|---|-----|
| Open Recommendations Beginning of Period        | 163 |
| Opened This Period                              | 10  |
| Closed This Period                              | 35  |
| Open Recommendations End of Period              | 138 |
| Reports with Open Recommendations End of Period | 27  |

### Investigations

|                             |    |
|-----------------------------|----|
| Pending Beginning of Period | 10 |
| Opened                      | 21 |
| Closed                      | 7  |
| Pending End of Period       | 24 |

### Complaints<sup>1</sup>

|                             |    |
|-----------------------------|----|
| Pending Beginning of Period | 30 |
| Opened                      | 42 |
| Closed                      | 57 |
| Pending End of Period       | 15 |

### Financial Recoveries<sup>2</sup>

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

### Criminal Actions<sup>2</sup>

|             |   |
|-------------|---|
| Arrests     | 0 |
| Indictments | 0 |
| Convictions | 0 |

### Administrative Actions<sup>2</sup>

|                                  |   |
|----------------------------------|---|
| Referrals                        | 0 |
| For Prosecution:                 |   |
| Department of Justice            | 2 |
| Various States' Attorney Offices |   |
| Declined                         | 2 |

For Other Action:

PBGC Management for Corrective Action

0

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

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

## RESULTS OF REPORTS ISSUED

For the Six-Month Period Ending September 30, 2014

|  | Number<br>Of Reports | Questioned<br>Costs | Unsupported<br>Costs | Funds Put to<br>Better Use |
|--|----------------------|---------------------|----------------------|----------------------------|
| A. For which no management decision had been made by the commencement of the reporting period.   | 1                    | \$0                 | \$0                  | \$0                        |
| B. Which were issued during the reporting period.  | 3                    |                     |                      |                            |
| FY 2013 Audit of PBGC'S Compliance with the Implementation of the Improper Payments Information Act (4/10/2014)                                  | 0                    | \$0                 | \$0                  | \$0                        |
| Security Assessment of the Pension Benefit Guaranty Corporation Information Technology Environment (9/16/2014)                                   | 0                    | \$0                 | \$0                  | \$0                        |
| PBGC's Incentives and Compensation Flexibilities Program to Recruit and Retain a Qualified Workforce Was Administered Inconsistently (9/30/2014) | 0                    | \$0                 | \$0                  | \$0                        |
| Total (Add A. & B.)  | 4                    | \$0                 | \$0                  | \$0                        |
| C. For which a management decision was made during the reporting period.   | 3                    | \$0                 | \$0                  | \$0                        |
| (i) dollar value of disallowed costs   | 0                    | \$0                 | \$0                  | \$0                        |
| (ii) dollar value of costs not disallowed  | 0                    | \$0                 | \$0                  | \$0                        |
| D. For which no management decision had been made by the end of the reporting period.  | 1                    | \$0                 | \$0                  | \$0                        |
| E. For which no management decision was made within six months of issuance.  | 0                    | \$0                 | \$0                  | \$0                        |

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

| Report Number, Report Title and Date Issued   | Number of Significant Recommendations | Significant Problems and Deficiencies                                     | Summary of Significant Recommendations  |
|---|---------------------------------------|---|---|
| <p>96-4/23093-2<br/>Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 1995 Financial Statements 03/13/1996<br/>and<br/>AUD-2008-2/ FA-09-0034-2<br/>Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit<br/>11/15/2007</p>             | <p>1</p>                              | <p>Integrated Financial Management Systems</p>                            | <p>PBGC needs to complete the integration of its financial management systems.</p>                                  |
| <p>2003-3/23168-2<br/>Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2002 - 2001 Financial Statements 01/30/2003<br/>and<br/>AUD-2008-2/ FA-09-0034-2<br/>Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit<br/>11/15/2007</p>   | <p>1</p>                              | <p>Entity-Wide Information Security Program Planning &amp; Management</p> | <p>PBGC needs to complete its efforts to fully implement and enforce an effective information security program.</p> |
| <p>2008-1/FA-0034-1<br/>Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2007 - 2006 Financial Statements 11/15/2007<br/>and<br/>AUD-2008-2/ FA-09-0034-2<br/>Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit<br/>11/15/2007</p> | <p>8</p>                              | <p>Access Controls</p>  | <p>PBGC needs to mitigate the systemic issues related to information access controls.</p>                           |

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

| Report Number, Report Title<br>and Date Issued   | Number of Significant<br>Recommendations | Significant Problems<br>and Deficiencies  | Summary of<br>Significant<br>Recommendations   |
|--|--|---|--|
| <p>AUD-2009-01/FA-08-49-1<br/>Audit of the Pension Benefit<br/>Guaranty Corporation's Fiscal<br/>Years 2008 and 2007<br/>Financial Statements<br/>11/13/2008<br/>and<br/>AUD-2009-02/FA-08-49-2<br/>Limited Disclosure Report on<br/>Internal Controls – PBGC's FY<br/>2008 and 2007 Financial State-<br/>ments 11/13/2008</p> | 3  | Entity-Wide Information<br>Security Program &<br>Planning Management  | PBGC needs to complete<br>the design, implementa-<br>tion and testing of securi-<br>ty controls, implement an<br>effective certification and<br>review process, and cor-<br>rect identified access con-<br>trol vulnerabilities. |
| <p>AUD-2010-09/IT-09-67<br/>PBGC Needs to Improve Con-<br/>trols to Better Protect Partici-<br/>pant Personally Identifiable<br/>Information (PII)<br/>09/16/2010</p>  | 2  | System control weak-<br>nesses placed PII of ap-<br>proximately 1 million<br>participants at risk.              | PBGC needs to strengthen<br>security controls and<br>complete a certification<br>and accreditation review<br>of the system housing the<br>PII.   |
| <p>AUD-2010-08/IT-09-67<br/>Authorization to Operate PBGC<br/>Information Systems<br/>08/18/2010</p>   | 2  | Information technology<br>general support systems<br>and major applications<br>without ATOs required<br>by OMB. | PBGC should develop a<br>comprehensive plan to<br>remediate identified<br>vulnerabilities.   |

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

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

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

Telephone:

The Inspector General's HOTLINE

1-800-303-9737

TTY/TDD:

For hearing/speech impaired services,

dial FRS (800) 877-8339

and give the Hotline number to the relay operator.

Web:

<http://oig.pbgc.gov/investigations/details.html>

Or Write:

Pension Benefit Guaranty Corporation

Office of Inspector General

PO Box 34177

Washington, DC 20043-4177

