



PENSION BENEFIT GUARANTY CORPORATION

Semiannual Report to the Congress

Management's Response to the OIG Semiannual Report:

April 1, 2014 – September 30, 2014

Office of the Director
Washington, D.C.

PENSION BENEFIT GUARANTY CORPORATION

SEMIANNUAL REPORT TO THE CONGRESS

Foreword

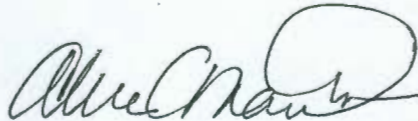
The Pension Benefit Guaranty Corporation provides fundamental support to two of the Obama Administration's steadfast priorities: To improve retirement security and preserve the defined benefit pension system for millions of Americans.

For 40 years now, this small agency has worked toward a big mission: To encourage voluntary private pensions; to provide timely, uninterrupted benefits to pension participants and beneficiaries; and to keep premiums at the lowest level consistent with carrying out PBGC's obligations.

It is my pleasure to deliver my first report as Acting Director on the agency's work to improve our internal controls in order to live up to its vital mission. PBGC is fully committed to working cooperatively with the PBGC Office of Inspector General (OIG) to that end.

During the past year, PBGC received its 21st consecutive clean audit opinion on the financial statements for FY 2013. PBGC is rightly proud to have met this standard. With the oversight of the OIG, the independent auditor, CliftonLarsonAllen LLP, also noted that three previously reported material weaknesses in internal controls continue to exist. PBGC is continuing its concerted, corporate-wide effort to respond and correct them. For a number of years, PBGC has also worked to address a significant deficiency related to systems integration. It is a pleasure to tell you that the PBGC management team completed its corrective actions on this item in the reporting period.

This report describes actions to improve PBGC's controls, including those over information security, systems access and configuration, and benefits administration. PBGC does all this work to improve retirement security—because that is our mission. PBGC, an excellent agency, is a better one for OIG's efforts, and we are striving to make it better still.



Alice C. Maroni
Acting Director

Maintaining Management Controls and Accountability

Being a public agency with public responsibilities for plans involving millions of people and hundreds of billions in funds means PBGC has an obligation to do its work to the highest standards of accountability. The agency—a government corporation—is understandably proud of the fact that, for the past 21 years, its financial statements have received clean audit opinions. PBGC's statements are audited annually by the OIG's external auditors, and the agency's practices and procedures are reviewed by the OIG, as well as by the Government Accountability Office (GAO) and others. This report is focused on these activities.

As a government corporation, PBGC is singular in having the corporate governance it has: a Board of Directors comprised of three Cabinet-level Secretaries. The Secretary of Labor as Chair, the Secretary of Treasury, and the Secretary of Commerce take their governance role seriously. As a Board, they have met more frequently than in years past, and in this reporting period, for the first time, they had the benefit of a joint meeting with the PBGC Advisory Committee.

Everyone at PBGC has responsibility for the effectiveness of the Corporation's internal controls. The Corporation has structured its Internal Controls Program to support compliance with Federal Manager's Financial Integrity Act (FMFIA) and OMB Circular A-123 requirements. Within the context of our mission to provide timely, uninterrupted pension benefits, PBGC management is charged with "establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations." (OMB Circular A-123, *Management's Responsibility for Internal Control*.)

PBGC remains strongly committed to internal controls. As a small agency, we have devoted considerable time, effort, and other resources to help ensure that our controls—and our goals—are met. We have an award-winning ethics program.¹ PBGC is infused with top-notch, highly-educated talent who work hard every day on the complex issues surrounding pensions. PBGC's Internal Control Committee (ICC) provides oversight and accountability for internal controls over operations, financial reporting, and compliance with laws and regulations. Chaired by the CFO, the ICC membership includes voting members from each major area of the agency, and a non-voting member from PBGC's OIG. PBGC's Contracts and Controls Review Department (CCRD), which facilitates ICC activities, also tests financial reporting, entity-wide, and information technology controls throughout the Corporation. Resulting reports are issued to executive management as input to control design and effectiveness decisions. Employees responsible for applicable key controls maintain logs documenting control execution, and provide quarterly representations regarding the performance of these controls. Work under the

¹ PBGC won two Office of Government Ethics awards in recent years: the Education and Communication Award in 2008, and the Campaign to Build Organizational Integrity Award in 2011.

Internal Control Program supports the Director's FMFIA Assurance Statement that is included in the Annual Report approved by the Board each fiscal year.

The Agency Continues To Make Progress in Addressing Weaknesses

During FY 2014 the OIG, and its external auditors, CliftonLarsonAllen LLP, completed work on the financial statements for the 2013 fiscal year. As noted above, PBGC received an unmodified ("clean") opinion on its financial statements – its 21st in a row. This means that the public, policy makers, and other stakeholders can rely on the information reported in our financial statements and in the notes to the financial statements.

Unlike most agencies, PBGC undergoes a separate audit of its internal controls. This additional audit measures the Corporation's controls on a higher standard and requires more testing than that of the financial statement audit. It identifies those areas where controls are adequate and where they require improvement, as in information security and benefits administration. PBGC is working hard to address these weaknesses and improve the related controls. As the OIG SARC has noted, the agency is making progress in both information security and benefits administration.

Information Security

PBGC continues to address the material weakness relating to information security and access controls. PBGC published a new IT Strategic Plan at the end of last year, prioritizing IT security and addressing this issue as PBGC's number one IT priority. Other FY 2014 accomplishments of the Office of Information Technology (OIT) include the following:

- OIT completed corrective actions on, as part of this annual audit cycle, twelve OIG audit recommendations that were directly related to this material weakness;
- IT Infrastructure Operations Department (ITIOD) successfully completed a Security Assessment & Authorization (SA&A) for PBGC's General Support System to retain its Authority to Operate (ATO);
- PBGC signed on as an adopter of Department of Homeland Security's Continuous Diagnostics and Mitigation (CDM) Program designed to fill gaps of monitoring tools and dashboards to federal agencies;
- OIT worked to implement Department of Justice's Cyber Security Assessment and Management tool for automation of system inventory, security documentation, controls management, and plan of action and milestone tracking including a management dashboard; and

- OIT continued to develop and improve IT security procedures and ensure that appropriate monitoring is in place, especially in regard to incident response and remediation processes.

In addition, late in FY 2014, PBGC welcomed a new Chief Information Security Officer (CISO) who has an established track record and successfully led efforts that resulted in the removal of an information technology security-related material weakness at a Cabinet-level agency. Leading the Enterprise Cybersecurity Division (ECD), the CISO is directly accountable to the Chief Information Officer. A comprehensive analysis of ECD activities is underway to identify how to improve the structure and alignment of IT security efforts at PBGC. In addition, an IT Security Tiger Team has been established to ensure that IT security practice are appropriately implemented and applied throughout the agency.

Benefits Administration

Corrective actions continue regarding this material weakness, which was first reported in FY 2011. It relates to the need to improve audits of plan assets and plan participant databases, the acquisition, storage and retention of records, and the oversight of work performed by contractors working in support of the Benefits Administration and Payment Department (BAPD). BAPD is working to transform its operations as part of its ongoing Strategic Review. Implementing the recommendations resulting from this review is a multi-year effort and remains a top priority for PBGC. The following highlights specific BAPD accomplishments for FY 2014:

- Gained closure of an OIG audit recommendation regarding updating the BAPD Operations Manual to formally document procedures for the archiving of source document records;
- Fully-staffed its Asset Evaluation Division with 20 employees that have the qualifications necessary to perform plan assets audits in a timely and professional manner; and
- Continued to strengthen audit and actuarial staff training; for instance, BAPD held workshops and training sessions on the performance of plan asset audits, participant data and source document reviews. In addition, specialized training on the identification of fiduciary breaches and the form and structure of limited partnerships was also offered.

Progress in Processing Delphi Final Benefit Determinations

PBGC agrees that the timeline to begin issuing benefit determinations for the Delphi Salaried plan in October 2015 is aggressive.

On November 26, we received the asset evaluation report and have begun its review. The asset evaluation process followed the new procedures, put into place to address concerns previously raised by the PBGC OIG.

We have passed the stage of work with the greatest uncertainty, namely the asset evaluation stage—which includes data collection, new procedures, and technical challenges related to the investment structure of the Delphi assets.

In the context of Delphi, the Acting BAPD Director is reassessing current operations and has reprioritized the BAPD organizational change initiatives. We have confidence we can meet the next Delphi milestones, which include completing the quality control checks on the asset evaluation in January 2015 and the reconciliation of the asset values with our financial operations in February 2015.

PBGC Leadership Moves Forward

Any organization as vibrant as PBGC will experience leadership changes from time to time. Following the longest-serving Director in the agency's history, it has been my privilege to serve as Acting Director in recent months. We are also fortunate to have in Cathleen Kronopolus a seasoned senior manager to oversee operations. Following the recent departure of our Chief Information Officer to one of the federal financial regulatory agencies with an enhanced compensation system, PBGC promptly acted to seek new talent for the position. In addition, we are pleased to have longstanding Chief Financial Officer Patricia Kelly now also serving as Acting Chief of Technology Operations. In sum, we appreciate the Acting Inspector General's kind words for those of us in these special leadership positions, as well as our frank, open working relationship.

A Vigorous Process for Coordinating Audits

PBGC has a vigorous process in place to promote audit coordination. During an audit, management seeks to ensure that the auditors are receiving the information needed from management. For example, in the financial statement audit, management tracks very closely the more than 800 different evidentiary materials requested by the auditors to make sure that the audit is successful. When management learns of an audit finding, timely responses are provided

to the auditors on each finding. Over the past year, PBGC has made strides to improve communications with and responsiveness to the OIG. The OIG's draft reports in writing have helped to address any miscommunications and provide executive management the opportunity to ensure that relevant documentation is provided to the auditors. PBGC is certainly committed to improving the communication during the audit and welcomes the OIG's early reporting when the auditors believe they have not received necessary evidence. The early reporting of needed evidence or potential findings has served to improve communications in the financial statement audits. PBGC remains committed to providing OIG with timely and complete responses to their information and document requests, including by suggesting to OIG other PBGC employees who have access to the information OIG seeks.

Completing Actions & Closing out Audit Recommendations

PBGC has gone the extra mile in addressing open OIG audit recommendations in FY 2014. As the OIG SARC acknowledges, the number of open recommendations at year end was the lowest in five years. Moreover, the 97 recommendations closed in FY 2014 are nearly three times the number closed the year before. As of September 30th, there were 134 open recommendations, not including the four to which management has not agreed. Of the 134, there were a total of 49 for which management reported completed work; these were awaiting OIG review. Of the 49 submitted for review, 21 related to recommendations associated with the material weaknesses.

Table 1 of the Attachment presents all of the recommendations in resolved audit reports over 12 months old. You may be pleased to know that PBGC has closed more than 70 percent of the recommendations in these reports, with another 10 percent either submitted for OIG review or closed subsequent to the period.

ATTACHMENT

Audit Coordination and Follow-up Procedures

Audit Coordination and Follow-up Procedures

PBGC has established procedures to ensure proper coordination of the OIG and GAO audits and follow-up on related recommendations to comply with the IG Act and OMB Circular A-50, *Audit Follow-up*. These procedures were developed with the input of the OIG and are set forth in PBGC Directive No. GA-15-04, *Audit Coordination and Follow-up*, dated August 26, 2008.

Regular Status Reporting

Transparency and effective communications are key factors to an effective audit follow-up process. The Contracts and Controls Review Department (CCRD) regularly prepares and circulates status reports to management on ongoing audits initiated by the OIG and the GAO. One of the objectives of this report is to ensure that audit recommendations are being addressed in a timely manner. To ensure that agreed-upon recommendations are implemented timely, the CCRD also regularly prepares and circulates lists of open OIG and GAO audit recommendations, reporting the status of corrective actions and estimated completion dates to management. This process serves to highlight recommendations that are not meeting milestones or that are overdue.

Should changes to estimated completion dates become necessary, these changes are first coordinated with executive members in management, then communicated to the OIG. Further, as part of the annual financial statement audit process, Management provides the OIG and its external auditors, with formal presentations regarding progress made towards the material weaknesses during the past year.

Submission of Evidence for Completed OIG Recommendations

A key component of gaining closure on open OIG recommendations is providing evidence that management has completed corrective actions. When presenting such evidence to OIG for a closure determination by the OIG, PBGC requires the submission of a recommendation completion form, which contains a certification by Management that work has been completed.

Tables Required by the Inspector General Act

Management has prepared two tables required by the Inspector General Act, as follows:

- Table 1 provides our comments on resolved OIG audit reports that are more than 12 months old and contain recommendations for which the final action is pending; and
- Table 2 details OIG reports requiring management decisions.

The OIG did not identify any “funds to be put to better use” during the reporting period. Therefore, no table for this item was prepared.

Table 1

**Management Statement on Resolved Audit Reports Over Twelve Months Old
With Final Action Pending as of September 30, 2014**

Date Issued	Report No.	Title of Report	Status of Management Actions
11/15/2004	2005-02	Audit of PBGC's FY 2004 and 2003 Financial Statements	Of the 21 recommendations included in the report, 20 were closed. The remaining recommendation remains in progress.
03/31/2005	2005-10	FY 2004 Financial Statement Audit – Management Letter	Of the 37 recommendations included in the report, 36 were closed. The remaining recommendation remains in progress.
11/15/2007	2008-02	Report on Internal Controls – PBGC's FY 2007 and 2006 Financial Statement Audit.	Of the 18 recommendations included in the report, seven were closed. Three additional recommendations were closed subsequent to September 30, 2014. Of the remaining eight recommendations, one has been submitted to the OIG for closure and seven remain in progress.
11/13/2008	2009-02	Report on Internal Controls Related to PBGC's FY 2008 and 2007 Financial Statements Audit	Of the six recommendations included in the report, three were closed and three recommendations remain in progress.
01/15/2009	2009-04	FY 2008 Financial Statements Audit Management Letter	Of the 16 recommendations included in the report, 15 were closed. The remaining recommendation remains in progress.

Table 1

**Management Statement on Resolved Audit Reports Over Twelve Months Old
With Final Action Pending as of September 30, 2014**

11/12/2009	2010-02	Report on Internal Controls Related to the PBGC's Fiscal Year 2009 and 2008 Financial Statement Audit	Of the 20 recommendations included in the report, five were closed. Two additional recommendations were closed subsequent to September 30, 2014, and three were submitted to the OIG for closure. The remaining 10 recommendations remain in progress.
02/23/2010	2010-04	FY 2009 Financial Statements Audit Management Letter	Of the 35 recommendations included in the report, 28 were closed, and three have been submitted to the OIG for closure. The remaining four recommendations remain in progress.
03/22/2010	2010-07	Federal Information Security Management Act (FISMA) Independent Evaluation Report for FY09	Of the 12 recommendations included in the report, 10 were closed. The remaining two recommendations remain in progress.
08/18/2010	2010-08	Authorization to Operate PBGC Information Systems	Of the four recommendations included in the report, two were closed. The remaining two recommendations remain in progress.
09/16/2010	2010-09	PBGC Needs to Improve Participant to Better Protect Participant Personally Identifiable	Of the three recommendations included in the report, one has been closed. Of the two remaining recommendations,

Table 1

**Management Statement on Resolved Audit Reports Over Twelve Months Old
With Final Action Pending as of September 30, 2014**

		Information (PII)	one has been submitted to the OIG for closure and one remains in progress.
11/16/2010	2011-01	Evaluation of PBGC's Strategic Preparations for a Potential Workload Influx.	Of the five recommendations included in the report, four were closed. The remaining recommendation remains in progress.
02/24/2011	2011-06	FY 2010 Financial Statement Audit – Management Letter	Of the 19 recommendations included in the report, 17 were closed. One recommendation was closed subsequent to September 30, 2014. The remaining recommendation remains in progress.
03/30/2011	2011-10	PBGC Plan Asset Audit of Nation Steele Pension Plans Was Seriously Flawed	Of the 12 recommendations contained in the report, 10 were closed. Of the two remaining recommendations, one has been submitted to the OIG for closure and one remains in progress.
11/14/2011	2012-02	Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's FY 2011 and 2010 Financial Statement Audit	Of the 17 recommendations included in this report, eight were closed two recommendations were closed subsequent to September 30, 2014. Of the remaining recommendations, two were submitted to the OIG for closure.

Table 1

**Management Statement on Resolved Audit Reports Over Twelve Months Old
With Final Action Pending as of September 30, 2014**

11/30/2011	2012-05	PBGC's Processing of Terminated United Airlines Pension Plans was Seriously Flawed.	Of the 15 recommendations in the report, seven were closed. Of the remaining eight recommendations one was submitted for closure to the OIG and seven remain in progress.
03/29/2012	2012-06	FY 2011 Financial Statement Audit – Management Letter	Of the 27 recommendations included in the report, 24 were closed. Of the remaining recommendations, one has been submitted to the OIG for closure and two remain in progress.
5/11/2012	2012-09	FY 2011 FISMA Audit	Of the six recommendations contained in the report, four were closed. Of the remaining recommendations, one has been submitted to the OIG for closure and one remains in progress.
11/5/2012	2013-02	Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's FY 2012 and 2011 Financial Statement Audit	Of the five recommendations contained in the report, three were closed. The remaining two recommendations remain in progress.
5/16/2013	2013-07	Vulnerability Assessment and Penetration Testing Report	Of the five recommendations contained in the report, five were submitted to the OIG for closure.

Table 1

**Management Statement on Resolved Audit Reports Over Twelve Months Old
With Final Action Pending as of September 30, 2014**

5/14/2013	2013-08	Fiscal Year 2012 Financial Statement Management Letter	Of the ten recommendations contained in the report, two were closed. The remaining eight recommendations remain in progress.
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Table 2

**Management Statement on OIG Reports Requiring Management Decisions
For the Period Ending September 30, 2014**

	Number of Reports	Questioned Costs
A. For which no management decision, including any matters relating to questioned costs, had been made by the commencement of the reporting period.	1 ¹	\$ -
B. For which a management decision, including any matters relating to questioned costs, was made during the reporting period.	0	\$ -
i. dollar value of disallowed costs		\$ -
ii. dollar value of costs not disallowed		\$ -
C. For which no management decision, including any matters relating to questioned costs, had been made by the end of the reporting period.	1 ²	\$ -
D. For which no management decision, including any matters relating to questioned costs, was made within six months of issuance.	0	\$ -

¹ Report No. EVAL-2014-9/FA-13-93-7

² Report No. AUD-2014-10/PA-12-86