



Pension Benefit Guaranty Corporation
Office of Inspector General
Audit Report

**Fiscal Year 2015
Financial Statement Audit
Management Letter Report**

March 4, 2016

AUD 2016-6/ FA-15-108-6

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Office of Inspector General
Pension Benefit Guaranty Corporation

March 4, 2016

TO: W. Thomas Reeder, Jr.
Director

Patricia Kelly
Chief Financial Officer

FROM: Rashmi Bartlett 
Assistant Inspector General for Audit

SUBJECT: Fiscal Year 2015 Financial Statements Audit
Management Letter (AUD 2016-6/ FA 15-108-6)

I am pleased to transmit the attached management letter resulting from the audit of the PBGC fiscal year (FY) 2015 financial statements (AUD-2016-2/ FA 15 108-2).

During the audit, our independent public accountant, CliftonLarsonAllen LLP, identified certain issues that while significant are not of sufficient magnitude to impact the financial statement opinion. These issues related to PBGC internal controls and operations were not included in their report on internal control dated November 13, 2015 (AUD-2016-3/ FA-15-108-3). This management letter summarizes CliftonLarsonAllen's findings and recommendations regarding those less significant matters and includes the status of prior years' management letter recommendations.

In your February 24, 2016, response to a draft of the management letter, you indicated that PBGC management agreed with the new recommendations and provided planned corrective actions with estimated completion dates. Responses to individual recommendations have been incorporated into the Management Response sections of Attachment III and Attachment IV. In addition, your response is included in this management letter as Attachment VIII in its entirety.

During FY 2015, CliftonLarsonAllen, as part of their work, followed up on open recommendations included in the previous years' management letters. This year the OIG and our independent public accountant will continue working with management to discuss and evaluate the status of prior years' recommendations.

March 4, 2016

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We would like to take this opportunity to express our appreciation for the overall cooperation provided during the performance of the audit.

Attachment

cc: Cathleen Kronopolus
Alice Maroni
Karen Morris
Ann Orr
Michael Rae
Robert Scherer
Judith Starr
Ted Winter
Marty Boehm



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To the Inspector General and
Management of the
Pension Benefit Guaranty Corporation

We have audited the financial statements of the Pension Benefit Guaranty Corporation (PBGC or the Corporation) as of and for the year ended September 30, 2015 and PBGC's internal control over financial reporting as of September 30, 2015, and have issued our reports¹ thereon dated November 13, 2015. In planning and performing our audits of the financial statements and internal control over financial reporting of PBGC, in accordance with auditing standards generally accepted in the United States of America; issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB); we considered PBGC's internal controls as a basis for designing audit procedures that are appropriate for the purpose of expressing our opinions on the financial statements and internal control over financial reporting. Our opinion included in the Annual Report, was that PBGC has not maintained effective internal control over financial reporting as of September 30, 2015. Our opinion on internal control is based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123 *Management's Responsibility for Internal Control*, as amended (OMB Circular A-123). Further, we identified one instance of noncompliance with selected provisions of laws and regulations for the year ended September 30, 2015. PBGC's asset valuation regulation at Title 29 of the Code of Federal Regulation (C.F.R.) Part 4044.41 Subpart (b), General valuation rules, states "Plan assets shall be valued at their fair market value, based on the method of valuation that most accurately reflects such fair market value." This instance of non-compliance was first reported in fiscal year 2011 and will remain until the revaluation of assets associated with the prior plan terminations is completed.

We previously provided a written communication dated November 13, 2015, which contains our written communication of significant deficiencies and a material weakness we identified during our audits of the financial statements of PBGC as of and for the year ended September 30, 2015, and PBGC's internal control over financial reporting as of September 30, 2015. This letter does not affect that communication.

During our audits we became aware of deficiencies in internal control, other than material weakness and significant deficiencies, and other matters that are opportunities to strengthen PBGC's internal control and improve the efficiency of PBGC's operations. Our comments and suggestions regarding these matters are summarized below. Additionally, the status of prior year audit recommendations is attached.

¹ Audit of the Pension Benefit Guaranty Corporation Fiscal Year 2015 and 2014 Financial Statements -- AUD-2016-2/FA-15-108-2
<http://oig.pbgc.gov/pdfs/FA-15-108-2.pdf>

Report on Internal Controls Related to the Pension Benefit Guaranty Corporations Fiscal Year 2015 and 2014 Financial Statements
Audit 2016-2/FA-15-108-3 <http://oig.pbgc.gov/pdfs/FA-15-108-3.pdf>

Management's written response to the matters identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the PBGC management and Inspector General of PBGC and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Calverton, Maryland
November 16, 2015

I. ACRONYMS

| | |
|-------|---|
| AVR | Actuarial Valuation Report |
| ASD | Actuarial Services Division |
| BAPD | Benefits Administration and Payment Department |
| CLA | CliftonLarsonAllen LLP |
| COR | Contracting Officer's Representative |
| CPs | Corporate Parents |
| DOL | Department of Labor |
| FASD | Facilities and Services Department |
| FBA | Field Benefit Administration |
| FIPS | Federal Information Processing Standards |
| FMFIA | Federal Managers' Financial Integrity Act of 1982 |
| FOD | Financial Operations Department |
| FY | Fiscal Year |
| GAO | Government Accountability Office |
| IOD | Insurance Operations Department |
| MCU | Management Coordination Unit |
| ME | Multi-Employer |
| NIST | National Institute of Standards and Technology |
| NFR | Notice of Findings and Recommendations |
| NRAD | Office of Negotiations and Restructuring Actuarial Division |
| OIG | Office of Inspector General |
| OIT | Office of Information Technology |
| OMB | Office of Management and Budget |
| PBGC | Pension Benefit Guaranty Corporation |
| PDR | Participant Data Review |
| PICs | Personal Interest Conflict System |
| PVA | Post Valuation Administration |
| RCF | Recommendation Completion Form |
| RP | Reasonable Possible |
| SE | Single-Employer |
| SPBR | Small Plan Bulk Reserve |
| TBD | To Be Determined |
| TP | Technical Procedure |

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II. EXECUTIVE SUMMARY

As part of the fiscal year (FY) 2015 financial statements audit, we tested internal controls over financial reporting and compliance with laws, regulations, contracts and grant agreements as of September 30, 2015, based on the criteria contained in the FMFIA and OMB Circular A-123. We did not examine all internal controls relevant to operating objectives as broadly defined by FMFIA and OMB Circular A-123, such as those controls relevant to preparing statistical reports and ensuring efficient operations. The work was completed in accordance with attestation standards established by the American Institute of Certified Public Accountants. In addition, we conducted our audits of the financial statements in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). The criteria used to benchmark the testing and to reach the conclusions contained in this report also included PBGC standards, procedures, and policies, along with government agency guidance published by the National Institute of Science and Technology (NIST), and through Presidential Decision Directives. Refer to Section VII for a listing of Federal criteria documented in the report.

The following is the breakdown by department of the results of our testing:

| Type | BAPD and IOD | OIT | FOD | IPD | NRAD | CCRD | FASD | Total |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Open recommendations as of September 30, 2014 | 29 | 2 | 2 | 1 | 3 | 5 | 1 | 43 |
| Recommendations Moved from Report On Internal Controls | 3 | 0 | 1 | 0 | 3 | 0 | 0 | 7 |
| Recommendations closed during FY 2015 audit cycle | <u>(26)</u> | <u>(2)</u> | <u>(1)</u> | <u>0</u> | <u>(2)</u> | <u>(2)</u> | <u>(1)</u> | <u>(34)</u> |
| Total prior years' open recommendations as of September 30, 2015 | 6 | 0 | 2 | 1 | 4 | 3 | 0 | 16 |
| Add: new FY 2015 recommendations | <u>1</u> | <u>0</u> | <u>1</u> | <u>0</u> | <u>2</u> | <u>0</u> | <u>0</u> | <u>4</u> |
| Total open recommendations as of September 30, 2015 | <u><u>7</u></u> | <u><u>0</u></u> | <u><u>3</u></u> | <u><u>1</u></u> | <u><u>6</u></u> | <u><u>3</u></u> | <u><u>0</u></u> | <u><u>20</u></u> |

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III. FISCAL YEAR 2015 FINDINGS AND RECOMMENDATIONS

| FISCAL YEAR 2015 FINDINGS | RECOMMENDATIONS | MANAGEMENT RESPONSE |
|--|---|--|
| <p>Title: Multiemployer 6/30 Testing</p> <p>ASD may not be utilizing the most precise methodology for determining the “guaranteed factor,” which is a significant element in the computation of the Present Value of Nonrecoverable Future Financial Assistance for Multiemployer plans. For Multiemployer (ME) plans categorized as insolvent and probable, we examined the underlying documentation supporting the valuation of the liabilities.</p> <p>Based upon our examination of a sample of ME plans, we observed that the methodology and default assumptions used to determine the guaranteed factor for medium and large multiemployer plans led to questionable results. For example, management derived the guaranteed factor using an assumption for Terminated Vested (TV) plan’s years of service which may not be indicative of industry expectation or best estimate. We observed that the years of service used for TVs caused the assumed accrual rate to be higher than the accrual rate for retirees. Given the expectation that retirees are expected to accrue more years of service as compared to TVs, this appears counterintuitive.</p> | <p>We recommend the following actions to address the identified condition:</p> <p>OIG Control Number: BAPD-133 (NFR 15-06)</p> <p>ASD should execute a new study for determining the guaranteed factor for multiemployer plans that considers the following:</p> <ol style="list-style-type: none"> 1. The sample of plans used to determine the guaranteed factor should be representative of the broad spectrum/population of plans to which the guaranteed factor methodology will be applied. For example, samples from each of the plan categories should include: <ol style="list-style-type: none"> a. Terminated b. Insolvent c. Ongoing d. Probable e. Possible 2. The sample should be randomly selected and cover a credible portion of the block as measured by present values as of a specific point in time (e.g. September 30, 2015). 3. The study should include a critical review of the current process and | <p>OIG Control Number: BAPD-133 (NFR 15-06)</p> <p>PBGC Response: OBA/ASD agrees with the recommended corrective action. OBA/ASD intends to utilize an independent contractor actuarial firm to execute a new study for determining the guaranteed factor for multiemployer plans which considers the items listed in the recommended corrective action.</p> <p>Targeted Completion Date: June 30, 2016</p> |

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| FISCAL YEAR 2015 FINDINGS | RECOMMENDATIONS | MANAGEMENT RESPONSE |
|---|--|---------------------|
| <p>Criteria:</p> <p>BAPD study, "Revisions to the Current ASD Practice for Determining the Guaranteed Benefit Reduction Factor for Multiemployer Plans" dated 1/27/14.</p> | <p>determine whether an alternative approach would be more appropriate.</p> <p>4. Any averages developed as part of the study's recommendations should be weighted by benefit present values.</p> <p>5. The study's recommendations should be tested against the sample to ensure their suitability. For example, the resulting guaranteed factors should replicate the actual guaranteed ratios of the sample within a reasonable measure of precision.</p> | |

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| FISCAL YEAR 2015 FINDINGS | RECOMMENDATIONS | MANAGEMENT RESPONSE |
|--|---|---|
| <p>Title: Non-Commingled Asset Report</p> <p>The Corporation relied upon pricing information obtained from third party pricing vendors to value non-commingled assets without performing any testing of pricing information. The Financial Operations Department (FOD) has an automated process to price public investments with third party pricing vendors. However, there are no controls in place to ensure that the Corporation tests the values for reasonableness on a periodic basis.</p> <p>Criteria:</p> <p>OMB A-123 Part II. Section A. Objectives of Internal Control over Financial Reporting</p> <p>1. Objectives of Internal Control over Financial Reporting.</p> <p>Internal control of financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:</p> <ul style="list-style-type: none"> • All reported transactions actually occurred during the reporting | <p>We recommend the following actions to address the identified condition:</p> <p>OIG Control Number: FOD-400 (NFR 15-10)</p> <p>PBGC should design analytical tools (automated or manual) to identify unusual trends and anomalies in the assigned values of investment securities. Management should follow up quarterly on these procedures to ensure they are performed and are effective, ensuring that net asset values are appropriate.</p> | <p>OIG Control Number: FOD-400 (NFR 15-10)</p> <p>PBGC Response: IAB updated its procedures and added a new TAS report to provide a comparison of the prices provided by the third party pricing vendor prior to market adjustments generated by TAS, in order to ensure that prices are accurate and to detect any unusual trends.</p> <p>Targeted Completion Date: June 30, 2016</p> |

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| FISCAL YEAR 2015 FINDINGS | RECOMMENDATIONS | MANAGEMENT RESPONSE |
|---|-----------------|---------------------|
| <p>period and all assets and liabilities exist as of the reporting date (existence and occurrence);</p> <ul style="list-style-type: none">• All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness);• All assets are legally owned by the agency and all liabilities are legal obligations of the agency (rights and obligations);• All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation);• The financial report is presented in the proper form and any required disclosures are present (presentation and disclosure);• The transactions are in compliance with applicable laws and regulations (compliance);• All assets have been safeguarded against fraud and abuse; and• Documentation for internal control, all transactions, and other significant events is readily available for examination. | | |

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| FISCAL YEAR 2015 FINDINGS | RECOMMENDATIONS | MANAGEMENT RESPONSE |
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| <p>Title: Reasonably Possible Small Plan Bulk Reserve</p> <p>The Single-Employer (SE) Small Plan Bulk Reserve (SPBR) Reasonably Possible (RP) contingency liability may be not accurately valued as of September 30, 2015. Our testing included a review of the liability calculation produced by the SE RP SPBR calculation Tool (SPBR Tool). The liability is a contingency for small plans. Small plans have unfunded vested benefits (UVB) of less than \$50 million.</p> <p>During the FY 2014 financial audit, we found the SPBR contingency liability was misstated because the SPBR liability calculation did not include UVB information for all plans in the universe. PBGC had not considered the impact of missing data on the liability even though there were specific indications that some of those plans had unfunded vested benefits.</p> <p>In response to our FY 2014 inquiries, the Office of Negotiations and Restructuring Actuarial Division (NRAD) performed an analysis of 20,963 non-terminated SE corporate parents to determine the impact of the data issue. NRAD initially projected that the missing information resulted in an understatement of the SE SPBR RP</p> | <p>We recommend the following actions to address the identified condition:</p> <p>OIG Control Number: NRAD-04 (NFR 15-09)</p> <p>Determine an estimation method that will be able to approximate the liability for future years for plans that do not report complete information in their premium filing.</p> <p>OIG Control Number: NRAD-05 (NFR 15-09)</p> <p>Complete a study, using 5500 data, on plans that do not report premium funding target to confirm that the current assumptions are valid and adjust those assumptions, if necessary.</p> | <p>OIG Control Number: NRAD-04 (NFR 15-09)</p> <p>PBGC response: NRAD agrees to create an estimate technique to add a liability amount for the blank plans. NRAD will compare the results to the 5500 estimation study already completed for NRAD-03 to confirm that the estimation technique is valid.</p> <p>Targeted Completion Date: November 30, 2016</p> <p>OIG Control Number: NRAD-05 (NFR 15-09)</p> <p>PBGC Response: NRAD is reviewing how best to address the concern identified by the OIG. All options will be explored for the calculation process of the Reasonably Possible liability to ensure that the costs involved do not outweigh the benefits.</p> <p>Targeted Completion Date: November 30, 2016</p> |

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| FISCAL YEAR 2015 FINDINGS | RECOMMENDATIONS | MANAGEMENT RESPONSE |
|---|-----------------|---------------------|
| <p>contingency liability of between \$0 and \$122 million.</p> <p>NRAD completed a study to determine the impact of the missing UVBs as recommended by CLA. NRAD reported that approximately 7,500 plans had missing UVB information and projected \$770.9 million understatement of the liability. NRAD examined about 3,600 plans from the inventory of plans with blank UVBs and updated its records. The net estimated impact on the liability for the 3,900 unexamined plans was recalculated as an understatement of approximately \$490 million.</p> <p>Criteria:</p> <p>The "Single Employer Reasonably Possible Calculation Tool for Small Plans User Guide Version 1.1" revised in October 2014 states that "The tool relies on source data for the entire SE universe and calculates the small RP exposure by relying on a ratio of Large RP and Probable exposure to all Large plans."</p> | | |

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IV. PRIOR YEARS' RECOMMENDATIONS

| PRIOR YEARS' RECOMMENDATIONS | RESULTS OF FY 2015 TESTING | TARGETED COMPLETION DATE |
|--|--|--|
| <p>Title: Personal Interest Conflict – PVA/Richmond Heights</p> <p>OIG Control Number: BAPD-109</p> <p>Given the recurring nature of this issue, PBGC should develop a strategic approach to identify the root cause of the recurring PICs systems access and implement the appropriate solution to restrict access to PICs files to all PBGC/FBA employees.</p> | <p>OIG Control Number: BAPD-109</p> <p>Management indicated that the prior year recommendation was initiated but not completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: BAPD-109</p> <p>Status: Corrective actions related to this recommendation were in process during the audit fieldwork.</p> <p>Targeted Completion Date: PBGC submitted corrective action completion documentation after audit fieldwork completed. OIG will assess the corrective action submission during the FY 2016 financial statement audit cycle.</p> |
| <p>Title: Participant Data Review</p> <p>OIG Control Number: BAPD-116</p> <p>BAPD management should refine their monitoring procedures within the Participant Data Review (PDR) process to ensure that each reviewer verifies that the staff selects the appropriate sample size in accordance with their prescribed procedures.</p> | <p>OIG Control Number: BAPD-116</p> <p>Management indicated that the prior year recommendation was initiated but not completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: BAPD-116</p> <p>Status: Corrective actions related to this recommendation were in process during the audit fieldwork.</p> <p>Targeted Completion Date: PBGC submitted corrective action completion documentation after audit fieldwork completed. OIG will assess the corrective action submission during the FY 2016 financial statement audit cycle.</p> |

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| PRIOR YEARS' RECOMMENDATIONS | RESULTS OF FY 2015 TESTING | TARGETED COMPLETION DATE |
|--|--|--|
| <p>Title: Contract Oversight</p> <p>OIG Control Number: BAPD-119</p> <p>BAPD should refine its monitoring procedures of the Field Benefit Administration and Post Valuation Administration's Quality Control Review to ensure that independent assessments are performed at the FBAs/PVAs, which should include evidence of the testing perform by the COR and a procedure on how to select and document samples used to perform the assessments.</p> | <p>OIG Control Number: BAPD-119</p> <p>Management indicated that the prior year recommendation was initiated but not completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: BAPD-119</p> <p>Status: Corrective actions related to this recommendation were in process during the audit fieldwork.</p> <p>Targeted Completion Date: PBGC submitted corrective action completion documentation after audit fieldwork completed. OIG will assess the corrective action submission during the FY 2016 financial statement audit cycle.</p> |
| <p>Title: A-123 Internal Control Assessment/FMFA</p> <p>OIG Control Number: CCRD-14</p> <p>1. PBGC should update their A-123 Internal Control Assessment Procedures to include:</p> <ol style="list-style-type: none"> Thorough explanation of the criteria and selection process used to determine controls selected for testing on the three-year rotational basis. The rotation plan should allow for management to revise their selections based on changing environment and/or processes and A testing procedure to verify the completeness of the populations' files is performed prior to sampling. | <p>OIG Control Number: CCRD-14</p> <p>We received the RCF and did not note evidence that CCRD completely addressed the original finding. We noted in our FY 2015 FMFA testing that for one testing of effectiveness performed by PBGC, the testing procedures did not include a step for determining the completeness of the population. Additionally, we noted that the division being tested did not keep documentation regarding the completeness of their population. Due to the deficiencies in ensuring the completeness of the populations being tested, this recommendation will remain open.</p> | <p>OIG Control Number: CCRD-14</p> <p>Status: CCRD is in the process of documenting the controls to be tested for FY 2016 and continues to monitor the work being performed in support of the PBGC's Internal Control Program.</p> <p>Targeted Completion Date: December 31, 2016</p> |

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| PRIOR YEARS' RECOMMENDATIONS | RESULTS OF FY 2015 TESTING | TARGETED COMPLETION DATE |
|---|---|--|
| <p>If not applicable, CCRD should document its rational/approach for not verifying the completeness of the population.</p> | | |
| <p>Title: A-123 Internal Control Assessment/FMFIA</p> <p>OIG Control Number: CCRD-17</p> <p>PBGC should revise the Entity-Wide Risk Assessment Survey instructions to provide greater clarity and examples.</p> | <p>OIG Control Number: CCRD-17</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: CCRD-17</p> <p>Status: CCRD completed the FY 2015 entity-wide risk assessment and is working to finalize actions on this recommendation.</p> <p>Targeted Completion Date: April 30, 2016</p> |
| <p>Title: A-123 Internal Control Assessment/FMFIA</p> <p>OIG Control Number: CCRD-18</p> <p>PBGC should develop a mapping document that clearly outlines the connection between the results of the risk assessment and the Entity-Wide Controls tested for A-123. The documentation should identify which controls relate to the risks identified. When changes in significant risks occur, PBGC should update its key controls over the related processes that are impacted and related to the test plans to ensure management is adequately addressing the operational effectiveness of those controls.</p> | <p>OIG Control Number: CCRD-18</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: CCRD-18</p> <p>Status: CCRD completed the FY 2015 entity-wide risk assessment and is working to finalize actions on this recommendation.</p> <p>Targeted Completion Date: April 30, 2016</p> |

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| PRIOR YEARS' RECOMMENDATIONS | RESULTS OF FY 2015 TESTING | TARGETED COMPLETION DATE |
|---|--|--|
| <p>Title: Controls Related to Single-Employer Premiums</p> <p>OIG Control Number: FOD-334</p> <p>Implement controls to reconcile FORM 1 information received by PBGC to Form 5500 information received from the DOL as a means of identifying plans that have not filed or paid their associated premiums.</p> | <p>OIG Control Number: FOD-334</p> <p>Management indicated that the prior year recommendation was initiated but not completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: FOD-334</p> <p>Status: Corrective actions related to this recommendation were in process during the audit fieldwork.</p> <p>Targeted Completion Date: PBGC submitted corrective action completion documentation on 01/19/2016, and additional documentation on 02/11/2016, after audit fieldwork completed. OIG will assess the corrective action submission during the FY 2016 financial statement audit cycle.</p> |
| <p>Title: Non-Commingled Assets</p> <p>OIG Control Number: FS-14-35</p> <p>FOD should strengthen their internal control procedures by establishing steps to ensure all Trust Accountants (TAs) are recording non-commingled account balances appropriately and consistently. In addition, the procedures should specify a review and/or reconciliation process that should be performed by personnel with sufficient experience and knowledge and in a timely manner to ensure errors are identified and corrected within the same accounting period.</p> | <p>OIG Control Number: FS-14-35</p> <p>Management indicated that the prior year recommendation was initiated but not completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: FS-14-35</p> <p>Status: Corrective actions related to this recommendation were in process during the audit fieldwork.</p> <p>Targeted Completion Date: PBGC submitted corrective action completion documentation on 08/10/2015. OIG will assess the corrective action submission during the FY 2016 financial statement audit cycle.</p> |

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| PRIOR YEARS' RECOMMENDATIONS | RESULTS OF FY 2015 TESTING | TARGETED COMPLETION DATE |
|--|--|--|
| <p>Title: Large and Medium Multiemployer Plans</p> <p>OIG Control Number: FS-14-41</p> <p>The Actuarial Services Division/BAPD should undertake a consolidation and codification of its technical procedures and actuarial practices into a single documentation source for single employer plan valuations.</p> | <p>OIG Control Number: FS-14-41</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: FS-14-41</p> <p>Status: As of 12/8/2014, BAPD provided a spreadsheet stating the status of open OIG recommendations and the corrective action plans to address them. The completion target date for this recommendation is 12/31/2018, and BAPD expects to submit an RCF requesting closure by this date.</p> <p>Targeted Completion Date: December 31, 2018</p> |
| <p>Title: Large and Medium Multiemployer Plans</p> <p>OIG Control Number: FS-14-42</p> <p>The Actuarial Services Division/BAPD should undertake a consolidation and codification of its technical procedures and actuarial practices into a single documentation source for multiemployer plan valuations.</p> | <p>OIG Control Number: FS-14-42</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: FS-14-42</p> <p>Status: As of 12/8/2014, BAPD provided a spreadsheet stating the status of open OIG recommendations and the corrective action plans to address them. The completion target date for this recommendation is 12/31/2018, and BAPD expects to submit an RCF requesting closure by this date.</p> <p>Targeted Completion Date: December 31, 2018</p> |

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|--|--|--|
| <p>Title: Large and Medium Multiemployer Plans</p> <p>OIG Control Number: FS-14-43</p> <p>The Actuarial Services Division/BAPD should undertake training of its staff to ensure implementation of the established policy for obtaining up-to-date plan and valuation data for all cases.</p> | <p>OIG Control Number: FS-14-43</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: FS-14-43</p> <p>Status: OIG did not accept the PBGC corrective action. OBA is reviewing the matter and determining how to best address the recommendation. Awaiting revised corrective action date.</p> <p>Targeted Completion Date: To be determined.</p> |
| <p>Title: Large and Medium Multiemployer Plans</p> <p>OIG Control Number: FS-14-46</p> <p>The Office of Negotiations and Restructuring Actuarial Division should implement a process to monitor the raw data entered into the tool to identify missing plan data and supplement as needed.</p> | <p>OIG Control Number: FS-14-46</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: FS-14-46</p> <p>Status: PBGC submitted corrective action completion documentation after audit fieldwork completed. OIG will assess the corrective action submission during the FY 2016 financial statement audit cycle.</p> |
| <p>Title: Large and Medium Multiemployer Plans</p> <p>OIG Control Number: FS-14-47</p> <p>The Office of Negotiations and Restructuring Actuarial Division should update its Small Plan Bulk Reserve tool to correct the flaws identified by the auditors during the FY 2014 testing.</p> | <p>OIG Control Number: FS-14-47</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: FS-14-47</p> <p>Status: PBGC submitted corrective action completion documentation after audit fieldwork completed. OIG will assess the corrective action submission during the FY 2016 financial statement audit cycle.</p> |

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| PRIOR YEARS' RECOMMENDATIONS | RESULTS OF FY 2015 TESTING | TARGETED COMPLETION DATE |
|---|--|--|
| <p>Title: Large and Medium Multiemployer Plans</p> <p>OIG Control Number: FS-14-48</p> <p>The Office of Negotiations and Restructuring Actuarial Division should promptly correct the two (2) exceptions identified by the auditors during the review performed as of September 30, 2014, which resulted in understatement of multiemployer Probable Small Plan Bulk Reserve (SPBR) and Reasonably Possible SPBR.</p> | <p>OIG Control Number: FS-14-48</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: FS-14-48</p> <p>Status: PBGC submitted corrective action completion documentation after audit fieldwork completed. OIG will assess the corrective action submission during the FY 2016 financial statement audit cycle.</p> |
| <p>Title: Duplication of Effort in Forced Matching Process</p> <p>OIG Control Number: IPD-4 (Formerly IOD-260)</p> <p>Develop and implement policies, procedures or other controls to ensure that reconciling items noted in one period are appropriately corrected to prevent them from recurring in future periods.</p> | <p>OIG Control Number: IPD-4 (Formerly IOD-260)</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p> | <p>OIG Control Number: IPD-4 (Formerly IOD-260)</p> <p>Status: PBGC submitted corrective action completion documentation after audit fieldwork completed. OIG will assess the corrective action submission during the FY 2016 financial statement audit cycle.</p> |

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| PRIOR YEARS' RECOMMENDATIONS | RESULTS OF FY 2015 TESTING | TARGETED COMPLETION DATE |
|--|---|--|
| <p>Title: Reasonably Possible Single-Employer Small Plan Bulk Reserve</p> <p>OIG Control Number: NRAD-03</p> <p>Completing a study, using 5500 data, on plans that do not report premium funding target to confirm that the current assumptions are valid or adjust those assumptions, if necessary. The study should be re-performed if certain critical facts such as policy and data have changed significantly since the last study.</p> | <p>OIG Control Number: NRAD-03</p> <p>We received the RCF and did not note evidence that NRAD completely addressed the original finding. We noted that NRAD was able to decrease their inventory of plans without a recorded UVB down to approximately 3,900 plans. However, during our testing, we reviewed the inventory detail and noted that NRAD revised their original understatement estimate from \$169.7 million to approximately \$770.9 million. Per NRAD, due to the decrease in the plan inventory, the current understatement estimate is now approximately \$490 million. Even with the decrease in amount of plans without a recorded UVB, NRAD's initial estimate in FY 2014 was over 4.5 times smaller than their revised estimate over the full plan inventory reported in FY 2015, and the understatement estimate for the remaining inventory is still over 2.5 times larger than the estimate NRAD provided for the initial inventory. While we recognize that NRAD has made significant progress in addressing the plans without a recorded UVB, NRAD has not demonstrated that they have a solid estimate of the potential liability understatement caused by the UVB issue and therefore cannot effectively conclude that this understatement is insignificant and warrants no further action. Therefore, this recommendation will remain open.</p> | <p>OIG Control Number: NRAD-03</p> <p>Status: OIG did not accept PBGC corrective action. NRAD is reviewing this matter and determining how best to address this recommendation. Awaiting revised corrective action date.</p> <p>Targeted Completion Date: To be determined.</p> |

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V. RECOMMENDATIONS CLOSED IN FISCAL YEAR 2015 AUDIT CYCLE

| <u>OIG Control Number</u> | <u>Date Closed</u> | <u>Original Report Number</u> |
|----------------------------------|---------------------------|--------------------------------------|
| BAPD-53 | 08/26/2015 | AUD-2009-04/FA-08-49-4 |
| BAPD-58 | 07/30/2015 | AUD-2010-04/FA-09-64-4 |
| BAPD-59 | 10/30/2015 | AUD-2010-04/FA-09-64-4 |
| BAPD-60 | 10/30/2015 | AUD-2010-04/FA-09-64-4 |
| BAPD-61 | 10/30/2015 | AUD-2010-04/FA-09-64-4 |
| BAPD-72 | 10/30/2015 | AUD-2011-06/FA-10-69-5 |
| BAPD-87 | 07/30/2015 | AUD-2012-06/FA-11-82-6 |
| BAPD-105 | 03/24/2015 | AUD-2012-06/FA-11-82-6 |
| BAPD-106 | 08/26/2015 | AUD-2012-06/FA-11-82-6 |
| BAPD-110 | 07/30/2015 | AUD-2013-08/FA-12-88-7 |
| BAPD-111 | 07/30/2015 | AUD-2013-08/FA-12-88-7 |
| BAPD-112 | 08/25/2015 | AUD-2013-08/FA-12-88-7 |
| BAPD-113 | 07/30/2015 | AUD-2013-08/FA-12-88-7 |
| BAPD-115 | 09/22/2015 | AUD-2013-08/FA-12-88-7 |
| BAPD-117 | 08/26/2015 | AUD-2013-08/FA-12-88-7 |
| BAPD-118 | 03/24/2015 | AUD-2014-07/FA-13-93-6 |
| BAPD-121 | 01/25/2016 | AUD-2014-07/FA-13-93-6 |
| BAPD-122 | 03/24/2015 | AUD-2014-07/FA-13-93-6 |
| BAPD-123 | 03/24/2015 | AUD-2014-07/FA-13-93-6 |
| BAPD-125 | 03/24/2015 | AUD-2014-07/FA-13-93-6 |
| BAPD-126 | 03/24/2015 | AUD-2014-07/FA-13-93-6 |
| BAPD-127 | 03/24/2015 | AUD-2014-07/FA-13-93-6 |
| BAPD-128 | 09/22/2015 | AUD-2014-07/FA-13-93-6 |
| BAPD-130 | 12/14/2015 | AUD-2015-06/FA-14-101-5 |
| BAPD-131 | 12/14/2015 | AUD-2015-06/FA-14-101-5 |
| BAPD-132 | 12/14/2015 | AUD-2015-06/FA-14-101-5 |
| CCRD-15 | 12/14/2015 | AUD-2015-06/FA-14-101-5 |
| CCRD-16 | 12/14/2015 | AUD-2015-06/FA-14-101-5 |
| FASD-142 | 06/16/2015 | AUD-2010-04/FA-09-64-4 |
| FOD-399 | 12/14/2015 | AUD-2015-06/FA-14-101-5 |
| FS-07-06 | 07/10/2015 | AUD 2008-2/FA-0034-2 |
| FS-11-16 | 12/15/2015 | AUD-2012-02/FA-11-82-2 |
| NRAD-01 | 12/14/2015 | AUD-2015-06/FA-14-101-5 |
| NRAD-02 | 08/19/2015 | AUD-2015-06/FA-14-101-5 |

VI. OPEN RECOMMENDATIONS AS OF NOVEMBER 13, 2015

| <u>OIG Control Number</u> | <u>Original Report Number</u> |
|----------------------------------|--------------------------------------|
| <u>Prior Year:</u> | |
| BAPD-109 | AUD-2013-08/FA-12-88-7 |
| BAPD-116 | AUD-2013-08/FA-12-88-7 |
| BAPD-119 | AUD-2014-07/FA-13-93-6 |
| CCRD-14 | AUD-2015-06/FA-14-101-5 |
| CCRD-17 | AUD-2015-06/FA-14-101-5 |
| CCRD-18 | AUD-2015-06/FA-14-101-5 |

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| OIG Control Number | Original Report Number |
|---------------------------------|--------------------------------|
| <i>FOD-334</i> | <i>2005-02/23182-2</i> |
| <i>FS-14-35</i> | <i>AUD-2015-3/FA-14-101-3</i> |
| <i>FS-14-41</i> | <i>AUD-2015-3/FA-14-101-3</i> |
| <i>FS-14-42</i> | <i>AUD-2015-3/FA-14-101-3</i> |
| <i>FS-14-43</i> | <i>AUD-2015-3/FA-14-101-3</i> |
| <i>FS-14-46</i> | <i>AUD-2015-3/FA-14-101-3</i> |
| <i>FS-14-47</i> | <i>AUD-2015-3/FA-14-101-3</i> |
| <i>FS-14-48</i> | <i>AUD-2015-3/FA-14-101-3</i> |
| <i>IPD-4 (Formerly IOD-260)</i> | <i>2005-10/23812-6</i> |
| <i>NRAD-03</i> | <i>AUD-2015-06/FA-14-101-5</i> |
| | |
| Current Year: | |
| <i>BAPD-133</i> | |
| <i>FOD-400</i> | |
| <i>NRAD-04</i> | |
| <i>NRAD-05</i> | |

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VII. CRITERIA

OMB Circular A-50, *Audit Follow-up*

OMB Circular A-123 Management's Responsibility for Internal Control

OMB Circular A-123 Part II. Section A. Objectives of Internal Control over financial reporting

OMB Circular A-130, Appendix III, *Security of Federal Automated Information Resources*

E-Government Act of 2002 (Public Law 107-347)

Federal Information Processing Systems (FIPS) Pub 73, *Guidelines for Security of Computer Applications*

FIPS Pub 102, *Guidelines for Computer Security Certification and Accreditation*

FIPS Pub 199, *Standards for Security Categorization of Federal Information and Information Systems*

NIST Special Publication 800-12, *An Introduction to Computer Security*

NIST Special Publication 800-13, *Telecommunications Security Guidelines for Telecommunications Management Network*

NIST Special Publication 800-14, *Generally Accepted Principles and Practices for Securing Information Technology Systems*

NIST Special Publication 800-18, *Guide for Developing Security Plans for Information Technology Systems*

NIST Special Publication 800-26, *Security Self-Assessment Guide for Information Technology Systems*

NIST Special Publication 800-30, *Risk Management Guide for Information Technology Systems*

NIST Special Publication 800-34, *Contingency Planning Guide for Information Technology Systems*

NIST Special Publication 800-35, *Guide to Information Technology Security Service*

NIST Special Publication 800-37, *Guide for the Security Certification and Accreditation of Federal Information Systems*

NIST Special Publication 800-53A, *Recommended Security Controls for Federal Information Systems*

BAPD Operations Manual TP 5.3A

BAPD Operations Manual TP 6.1C

BAPD Operations Manual TP 17.7

BAPD Operations Manual, Retiree Services Division Processes-Approve Funding Request Memorandum

BAPD Study, "Revisions to the Current ASD Practice for Determining the Guaranteed Benefit Reduction Factor for Multiemployer Plans," dated January 27, 2014.

COR Site Visit Program 2013, B.2.1

Users Procedures Guide

Multiemployer Working Group Procedures Manual

Government Accountability Office (GAO) Internal Control Standards: Accurate and Timely Recording of Transactions and Events

Single-Employer Reasonably Possible Calculation Tool for Small Plans User Guide Version 1.1

VIII. MANAGEMENT RESPONSE



Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

Office of the Director

FEB 24 2016

To: Robert Westbrooks
Inspector General

From: W. Thomas Reeder
Director

Subject: Response to Draft FY 2015 Management Letter Report

PBGC management appreciates the opportunity to comment on the draft management letter report issued as part of the FY 2015 financial statement audit.

We are in agreement with the draft report's new recommendations. For your convenience, staff is sending separately a detailed response via an electronic attachment based on your report's format. This will include a response to each new recommendation, including our planned corrective actions and estimated completion dates. It will also include updates regarding prior year recommendations referenced in Section IV of the draft report.

Please contact Marty Boehm on ext. 3901, should you have any questions.

cc:

Patricia Kelly, Chief Financial Officer
Cathy Kronopolus, Chief of Benefits Administration
Alice Maroni, Chief Management Officer
Karen Morris, Acting Chief of Negotiations and Restructuring
Michael Raë, Deputy Chief Policy Officer
Robert Scherer, Chief Information Officer
Judith Starr, General Counsel
Marty Boehm, Director, Corporate Controls and Reviews Department

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

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

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

Web:
<http://oig.pbgc.gov/investigation/details.html>

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