



Pension Benefit Guaranty Corporation
Office of Inspector General
SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2010 - MARCH 31, 2011

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Pension Benefit Guaranty Corporation

Office of Inspector General

1200 K Street, NW, Washington, DC 20005-4026

The Board of Directors
Pension Benefit Guaranty Corporation

During the 6 month period covered by this report (October 1, 2010 through March 31, 2011), the PBGC Office of Inspector General issued ten audit and evaluation reports with 43 recommendations for improvement. We completed four investigations, resolved 51 complaints, and continued investigative work on three cases that were accepted for prosecution by U.S. Attorneys' Offices during prior semiannual periods.

Much of the work done during this semiannual period was in response to Congressional requests. We issued two evaluation reports and a letter report, and the Inspector General testified before the Senate Health, Education, Labor and Pensions Committee.

- PBGC's National Steel Plan Asset Audit. We found that the audits performed by a contractor to determine the fair market value of the National Steel pension plans assets at the time the plans were terminated had serious errors and omissions, and that PBGC did not properly oversee the contractor. This work was requested by Senators Klobuchar and Franken, and former Congressman Oberstar.
- PBGC's Strategic Preparations for Potential Workload Influx. Our evaluation found that PBGC performed minimal planning for a potential workload influx. We also noted that PBGC's plan did not recognize the significant role of contract staff to address a potential influx nor had they coordinated with the procurement department to test the feasibility of their plans. We recommended that PBGC adopt a strategic focus and develop tactics to be prepared for the future. This work was requested by Senator Herb Kohl, Chair of the Senate Special Committee on Aging.
- Inspector General Testimony. I testified before the Senate Health, Education, Labor and Pensions Committee, that PBGC had made progress in some areas such as improving the privacy program and strengthening its securities lending program. However, there was still much to be done to address information technology deficiencies and ensure that contractors deliver what PBGC is paying for.

We also conducted work and issued reports that are mandated by statute:

- FY 2010 Financial Statements Audit Reports. We issued four reports in connection with our audit of PBGC's annual financial statements, including (1) a report presenting the 18th consecutive unqualified opinion on PBGC's general-purpose financial statements, as well as an adverse opinion on PBGC's system of internal control; (2) a detailed internal control report discussing PBGC's material weakness comprising three significant deficiencies; (3) a report presenting an unqualified opinion on PBGC's special-purpose financial statements that are consolidated into the Financial Report of the U.S. Government; and (4) a management letter report identifying less significant matters related to PBGC internal controls and operations.
- FY 2010 Federal Information Security Management Act (FISMA). We issued two FISMA reports: the Independent Evaluation Report required by OMB describing the overall results of our independent evaluation of PBGC's information security programs and practices and a more detailed report providing additional information on the results of our review of the PBGC information security program.

During this semiannual period, information technology (IT) was a significant focus of our efforts.

- We met frequently to understand PBGC's progress in its corrective action plans to address the significant deficiencies reported in prior OIG audits.
- We issued the FY 2010 Vulnerability Assessment, Penetration Testing, and Social Engineering Report, a restricted disclosure report that detailed the results of our testing of the PBGC information security infrastructure.

We have three active investigations that we are working toward prosecution with several U.S. Attorneys' offices. In addition, we combatted pension fraud through investigations, education, and assistance to PBGC in identifying potential identity theft issues.

We also issued a new five-year Strategic Plan for 2011-2016 which establishes goals for performance, stakeholder communication and workforce recruitment and development.

Sincerely,



Rebecca Anne Batts
Inspector General

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Executive Summary

This Semiannual Report to Congress summarizes the activities and accomplishments of the Pension Benefit Guaranty Corporation Office of Inspector General for the period October 1, 2010 through March 31, 2011. During this reporting period, our work spanned PBGC and demonstrated the need for PBGC to take more assertive action to address risk strategically:

- Our evaluation of PBGC's plan asset audit of the National Steel pension plans found that the work was seriously flawed. As a result, neither PBGC nor plan participants had assurance that benefits had been correctly computed and paid (see pages 5-9).
- The Inspector General testified before the Senate Committee on Health, Education, Labor and Pensions, reporting mixed results on whether stronger management and oversight was needed (see pages 10-12).
- Our evaluation of PBGC's strategic preparedness for a potential workload influx concluded that, as a result of not completing a comprehensive readiness exercise, PBGC does not have a well thought out strategy for addressing workload surges with a variety of workable tactics. Instead the Corporation is relying on its ability to develop and implement an ad hoc approach (see pages 12-15).
- Our information technology audit work included two FISMA reports and a report on vulnerability assessment, penetration testing and social engineering which found a significant number of critical and high vulnerabilities (see pages 16-18).
- We issued the 18th consecutive unqualified opinion on PBGC's general purpose financial statements. For a second year, we reported an adverse opinion on internal control based on three significant deficiencies that, taken together, comprise a material weakness (see pages 18-23).
- We issued a report on internal control that detailed the underlying material weakness: entity-wide security program planning and management; access controls and configuration management; and integrated financial management systems (see pages 20-22).
- In response to a request from Senator Brown of Ohio, we conducted limited scope inquiries on various issues related to PBGC's actions with respect to the terminated pension plans of Republic Technologies International (see page 23).
- We continue to address pension fraud and identify theft through investigations, proactive training, and outreach (see pages 24-26).
- We issued a new five-year Strategic Plan that outlines our goals related to performance, our stakeholders, and workforce (attached at the end of this semiannual report).

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Introduction

The Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) 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.

For about 44 million Americans, PBGC 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 about 1.3 million people.

As of the end of FY 2010, PBGC had an investment performance portfolio of about \$67 billion and had paid almost \$5.6 billion for about 801,000 retirees and beneficiaries. The Corporation reports having sufficient liquidity to meet its obligations for a number of years, despite a cumulative deficit of \$21.6 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's governance structure comprises the Board of Directors, their Board Representatives, a Presidentially-appointed Director, and Congressional oversight. Other elements of governance include PBGC's system of internal control, its clearly articulated authority to act, and the policies and procedures under which PBGC operates. PBGC governance is complex and requires those who are charged with its oversight to view the Corporation from a number of differing perspectives. Oversight by the PBGC Board, PBGC management and the OIG is critical to effective corporate governance.

The Office of Inspector General

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

PBGC paid almost \$5.6 billion for about 801,000 retirees' and beneficiaries' benefits.

*OIG audit and
investigative work
addresses areas of high
risk.*

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 President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). 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 *PCIE and ECIE Quality Standards for Investigations*.

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

Management Challenges

PBGC and the Need For a Strategic Focus

This Semiannual Report to Congress includes the results achieved by the PBGC Office of Inspector General between October 1, 2010 and March 31, 2011. Prior audit and investigative work, reported in previous semiannual reports, showed that PBGC has not approached aspects of its operations in a strategic way. Management sometimes missed, or ignored, the risks identified in OIG and Government Accountability Office (GAO) audit findings, choosing instead to focus more narrowly on correcting individual issues. This has been particularly true with regard to the procurement of goods and services and for information technology (IT). Much of the work described in this semiannual report results from PBGC's slow pace in addressing risks previously identified or from the need for PBGC to take more assertive action to address risk strategically.

This semiannual report also contains the Five Year Strategic Plan for the Office of Inspector General. In developing this plan, OIG established specific goals and performance measures consistent with the spirit of the Government Performance and Results Act .

PBGC OIG continues to respond to the numerous and varied issues of concern that confront the American pension system and its participants, including IT security, investment valuation and management, and benefit payment calculation and administration. OIG has also initiated a program of fraud awareness and outreach for stakeholders and participants and conducted targeted work in response to myriad Congressional requests and Hotline complaints. PBGC faces a number of challenges, ranging from planning for the possible surge in pension plan terminations to responding to new legislation.

During this semiannual period, OIG issued ten audit and evaluation reports containing 43 recommendations for corrective action. In investigations, we received 55 complaints and closed 51; we opened six new investigations and closed four. Highlights of the issued reports and closed investigations follow.

PBGC's Plan Asset Audit of National Steel Pension Plans Was Seriously Flawed
EVAL 2011-10/PA-09-66-1
(<http://oig.pbgc.gov/audit/2011/pdf/PA-09-66-1.pdf>)

In response to a request from U.S. Senators Amy Klobuchar and Al Franken and former U.S. Congressman James Oberstar, we examined PBGC's actions after it terminated certain Minnesota steelworker pension plans. Our review disclosed serious errors and omissions in PBGC's plan asset audit conducted to determine the fair market value of the assets of the National Steel Corporation's family of seven terminated pension plans with approximately 35,000 participants.

*PBGC should address
risk more strategically.*

Pension Plan	Number of Participants/ Beneficiaries ¹	Total Liability for Benefits ¹	Total Plan Assets per Plan Asset Audit ²
Granite City Pension Plan for Chemical Workers	1,360	\$161,396,301	\$67,603,081
Weirton Retirement Plan	11,962	\$505,186,871	\$321,363,157
National Steel Corporation Retirement Plan	5,728	\$667,007,979	\$310,340,803
National Steel Corporation Pension Plan Hourly Employees ³	10,404	\$1,101,896,167	\$494,155,641
Granite City United Steelworkers of America Pension Plan	3,830	\$382,926,459	\$178,567,462
Pension Plan for Salaried Employees of National Steel Pellet	225	\$29,374,742	⁴ \$15,825,012
National Steel Pellet Company Pension Plan for Wage Employees	1,643	\$106,558,608	⁴ \$50,519,972

Table 1: National Steel Corporation pension plans trustee by PBGC

1 Data from PBGC's Case Management System, the computerized system for tracking events and inquiries affecting pension plans.

2 Data from Plan Asset Audit prepared by Integrated Management Resources Group Inc, dated July 14, 2003.

3 This plan was mislabeled as "Great Lakes Hourly Pension Plan" in the plan asset audit report.

4 The total asset values were incorrectly switched for the National Steel Pellet salaried and hourly pension plans in PBGC's plan asset audit. For purposes of this chart, we corrected the error.

Plan asset audits are intended to establish the fair market value of pension plan assets as of the date of plan termination; this value is important because it can affect the level of benefits to be paid to retirees. For National Steel, a single plan asset audit report was accepted by PBGC in 2004 to establish the asset allocations for seven different pension plans. However, PBGC's plan asset audit for the National Steel plans failed to meet applicable professional standards. This occurred because both PBGC and its contractor failed to exercise due professional care in the conduct of the audit. Further, PBGC did not provide effective oversight for the contractor and accepted and paid for sub-standard and obviously flawed audit work. As a result, neither PBGC nor the plan beneficiaries has reasonable assurance that all plan assets have been identified, correctly valued, and properly allocated to the individual National Steel pension plans.

The value of a plan's assets is important because it is used in calculating retirement benefits. For some plans, increases in the calculated value of plan assets at the date of plan termination result in increased benefits for plan participants. However, for other plans – especially plans such as National Steel, in which plan funding falls far short of the calculated guaranteed benefit amount – even relatively large increases in the value of plan assets may not translate into additional benefits for retirees. Our report strongly cautioned the National Steel pension plan participants not to assume that the errors and omissions we identified would result in benefit increases.

Neither PBGC nor its contractor exercised due professional care in conducting the plan asset audit.

PBGC's Plan Asset Audit of National Steel was Replete with Obvious Errors and Omissions

Many errors in the plan asset audit were obvious and would have been identified if PBGC had subjected the report to even a cursory oversight review. For example, the audit report showed net assets were \$1,436,523,271.58. Three lines later, on the same page, the report's conclusion section showed a different amount, reporting net plan assets of \$1,438,375.127.95. Further, the supporting work paper shows yet a third number -- \$1,400,302,878.58 -- as net assets. The \$38 million difference between net assets as documented in the audit work paper and as reported in the conclusion section of the report is material. Neither the report nor the work papers explained the reasons for the differences in this key number.

Some errors in the plan asset audit report could have been identified by comparing what was reported with supporting or corroborating evidence. For example, the audit report states, "There were no insurance contracts in the plan." However, our review of the Forms 5500 submitted by National Steel showed that the plans held four insurance contracts valued at over \$56 million. The audit report also states, "No annuities were purchased for participants under the plan." Nevertheless, our review of the Forms 5500 showed that at least three annuity contracts were purchased for 229 beneficiaries in the plans.

PBGC's Plan Asset Audit Did Not Comply with Government Auditing Standards

PBGC's contract with Integrated Management Resources Group, Inc. (IMRG) required that "work products are consistent with Government Auditing Standards ..." and the National Steel plan asset audit report claimed the audit was conducted in accordance with Generally Accepted Government Auditing Standards. Government Auditing Standards, established by the Comptroller General of the United States, are the professional standards for government auditing that provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence. However, we determined the plan asset audit suffered from multiple and serious deviations from Government Auditing Standards.

Based on our work, we concluded that PBGC leadership did not have a strong commitment to ensuring that audit work was completed in accordance with Government Auditing Standards. Instead, as noted by the Benefits Administration and Payment Department (BAPD) Director, assertions about compliance with Government Auditing Standards were considered to be boilerplate and not necessarily relevant to the conduct of the plan asset audits. As the Inspector General noted in her December 1, 2010 testimony before the Senate Committee on Health, Education, Labor and Pensions, "allowing a contractor to provide a deliverable of a lesser quality than called for in a contract constitutes a form of waste or abuse, if not outright fraud." PBGC allowed IMRG to provide a plan asset audit report for seven National Steel pension plans that fell far short of meeting the quality standards included in the contract. While PBGC has committed to performing a re-evaluation of the value of plan assets, the passage of time and the difficulty of re-creating records may make such an effort difficult or impossible.

PBGC's ineffective oversight allowed obvious errors and omissions in the contractor's work to go uncorrected.

*PBGC is taking action
to address incorrect
National Steel plan
asset audits.*

PBGC's Oversight of the Contractor was Inadequate

PBGC's oversight of the contract auditors was ineffective in identifying obvious and material errors and omissions in the work IMRG performed on the National Steel plan asset audit. Although there was no documentation that PBGC personnel reviewed any of IMRG's work, both the PBGC manager and the PBGC auditor assigned to manage and provide oversight for the National Steel audit signed the contractor's plan asset audit report concurring with the results, supporting work papers, and attachments. Neither the PBGC manager nor the auditor commented on the inadequacies of the contract auditors' work or on the extensive noncompliance with Government Auditing Standards.

PBGC placed tremendous reliance on its contractor and is now experiencing serious and costly problems with the quality and utility of the contract deliverables for which it paid. Many of these issues could have been avoided through effective contract management, including careful contract monitoring, acceptance of deliverables and evaluation of contractor performance. More than five years ago, the Office of Inspector General issued audits reporting concerns that the contractor had not demonstrated that its employees possessed contractually required education, skills and experience and that PBGC was not providing proper oversight to the contractor. If the Corporation had responded effectively to information provided in prior audit reports, PBGC could have addressed this serious concern years ago.

Contractor Auditor Allocated Assets Among the Individual Plans Without Validating the Allocation Percentages

The contract auditor distributed assets of the master trust to each of the seven individual plans using a set of allocation percentages provided by the trustee. These percentages were vital to determining the accuracy of the funding status of the individual plans. Nevertheless, neither PBGC nor its contract auditor did any work to ensure that the allocation percentages were reliable or to validate the source and use of the percentages. Because the allocation percentages are so important to the calculated value of plan assets at the date of plan termination, any audit done in accordance with Government Auditing Standards, would necessarily include tests of the validity of the allocation percentages. In response to OIG's audit report, PBGC hired a Certified Public Accounting (CPA) firm to re-perform the plan asset audit for the National Steel master trust.

PBGC Agrees to Take Corrective Actions

During the course of the evaluation, we advised PBGC leadership of the serious issues included in this report. To its credit, PBGC committed to taking actions to re-evaluate National Steel's plan assets and to improve the effectiveness of its plan asset valuation process. PBGC's decision to contract with a CPA firm to re-evaluate the value of plan assets is a positive one. Our recommendations were intended to support that decision and help ensure the effectiveness of PBGC's ongoing effort to calculate a more reliable valuation for plan assets. However, given that the original report was accepted by

PBGC in 2004, it is important to note that the work that PBGC is currently doing will not provide the same level of assurance that a properly performed audit, conducted in accordance with Government Auditing Standards, would have provided. The passage of time will prevent PBGC and its new contract auditor from being able to complete many of the audit tests related to the detection of fraud, waste, or abuse. Further, in some instances, outside parties may not have maintained the corroborating records that could be used to assist in the valuation of plan assets. For example, we contacted the firm providing annuities to some of the plan beneficiaries; representatives of the firm advised that nearly all of the relevant records had been destroyed.

In our report, we made a number of recommendations aimed at reducing the likelihood that future audit products prepared by PBGC or by its contract auditors will suffer from the errors and omissions identified in our report. In its written response to the official draft report, PBGC agreed with our findings and recommendations and the PBGC Director asserted, “We have resolved to set things right....If anyone’s benefits were wrongly reduced, their benefits will be corrected and they will be repaid with interest – and an apology.”

OIG Communicates with Congress and Steelworkers About Plan Asset Audit Issues (http://oig.pbgc.gov/MIN_OIG_VID.html)

Since our work addressing PBGC processing issues with the National Steel pension plans was done at the request of Senators Amy Klobuchar and Al Franken and former Congressman James Oberstar, Inspector General Rebecca Anne (Becky) Batts and other OIG leaders held periodic briefings with the Congressional staffs to keep the legislators informed of our findings. When newly elected Congressman Chip Cravaack took office, we also met with him and his staff to discuss our work related to his constituents in the “Iron Range” of Minnesota.

At the request of Senators Klobuchar and Franken, Inspector General Batts and Deputy Inspector General Deborah Stover-Springer traveled to Minnesota in early April, after the close of this semiannual period but before the issuance of this written report. We met with Congressional staff and certain participants in the various National Steel pension plans in Duluth, MN near the Iron Range. At this meeting, the Inspector General explained our report’s findings and the positive impact that resulted when the steelworkers raised concerns about their pension plans and benefits to their Congressional representatives. Inspector General Batts told them that they were “owed an accurate accounting” of their plan’s assets from PBGC but also cautioned that, even with the serious errors and omissions we found, PBGC’s re-evaluation of their plan asset audit might not result in them receiving additional benefits, given that PBGC records showed their plans to be so significantly underfunded. However, she noted that their persistent voice had resulted in PBGC’s promise to change the way that PBGC plan asset audits would be performed in the future and in other commitments from PBGC that would have a positive impact on future PBGC pension plan participants.

*Inspector General
communicated with
plan participants
via video regarding
plan asset audit
findings.*

*PBGC's General
Counsel took
effective action in
response to OIG
recommendations.*

Because only a small number of the almost 35,000 participants in the National Steel pension plans could meet with us, at the request of Senators Franken and Klobuchar, the Inspector General and Deputy Inspector General prepared a video briefing of our work that can be viewed over the internet.

**Inspector General Testifies Before PBGC Senate Oversight Committee
"PBGC: Is Stronger Management and Oversight Needed?"
(<http://oig.pbgc.gov/reports/testimony/testimony12110%20final.pdf>)**

The Senate Committee on Health, Education, Labor and Pensions invited Inspector General Batts to testify about PBGC's management and oversight of its single and multiemployer pension insurance programs. Ms. Batts stated that her testimony was "essentially good news." She highlighted PBGC's recent accomplishments in responding to OIG recommendations, noting:

- PBGC had taken action to protect sensitive and personally identifiable information. (PII). PBGC's mission requires the collection, storage and transmittal of a great deal of PII, such as the names, social security numbers, and earnings histories of workers in pension plans that PBGC terminates and trustees. In March 2010, OIG reported that the Privacy Office did not properly monitor its privacy processes for quality and compliance, and the process for reporting PII breach events was inaccurate and unverifiable. Upon OIG's reporting of concerns with PBGC's privacy program, PBGC's Office of the General Counsel took swift steps to not only address the findings and recommendations but also initiated a complete reexamination of its privacy program with the stated intention of making PBGC a model for handling sensitive information. Among its actions, the Privacy Office developed and implemented key guidance about reporting PII breaches, including detailed recordkeeping instructions, and disseminated the guidance widely to PBGC employees and contractors. They followed this up with in-person training to those who frequently handle sensitive information. OIG's testing of PBGC's corrective actions showed that the recommendations had been effectively implemented, increasing the likelihood that PBGC will be able to better protect PII and other sensitive data with which it has been entrusted.
- PBGC initiated actions to protect its securities on loan to other investors. PBGC has a large portfolio of investments, of which \$21 billion was in investable securities as of September 30, 2010. OIG's review of PBGC's Securities Lending program disclosed the general absence of written guidance at all levels and little documentation of the procedures used to implement, monitor and oversee the program. Further, OIG had previously reported that PBGC was unable to independently validate that the gross and net revenues earned through the lending program were correctly calculated by the bank that had custody of PBGC's loaned assets. PBGC is making progress in implementing the 16 recommendations in our report. For example, PBGC has developed and is testing a method to validate the amount of revenue earned through securities lending – an important step to ensure PBGC receives the full amount of earnings to which it is entitled.

Further, PBGC is in the process of implementing internal controls to provide effective oversight and monitoring of the securities lending program, including drafting written policies and implementing guidance regarding the establishment, investment objectives, risk tolerance, and measurement standards and operation of the program.

The Inspector General also reported on a number of serious long-standing weaknesses that PBGC is still working to address. These weaknesses have impact across the Corporation, creating risk that PBGC cannot effectively accomplish its mission.

- Significant information technology risks. Much of OIG's recent audit work has focused on serious weaknesses in PBGC's IT practices that pose increasing and substantial risks to PBGC's ability to carry out its mission. For FYs 2009 and 2010, PBGC's annual financial statements audits included adverse opinions on internal control based, in part, on systemic IT security control weaknesses. OIG's report on PBGC's compliance with the Federal Information Security Management Act described PBGC's information systems as "a series of stovepipe solutions built upon unplanned and poorly integrated heterogeneous technologies with varying levels of obsolescence." Though the Corporation had, in the past, often dismissed OIG's IT concerns reported both in audits and investigations, PBGC is now on a different course of action. PBGC appointed new IT leadership and embarked on a coherent approach to resolving and correcting fundamental IT weaknesses. Among their actions, PBGC has developed and is implementing multi-year corrective action plans to address security issues at the root cause level. PBGC also entered into an inter-agency agreement with the Bureau of Public Debt (BPD) to leverage its expertise in security control. While these are important first steps, PBGC's planned corrective actions will not be complete until at least 2015. The Corporation faces many challenges – including the continuous stream of new and ever-changing Federal IT requirements – as it works to ensure the security of its IT systems.
- Integrity of the contracting process. PBGC relies heavily on the services of contractors to carry out its mission: about 2/3 of its annual operating budget is spent through contracts and about two of every three people who do its work are contractors. Thus, ensuring that contractors provide the goods and services for which they are paid is critical to PBGC's ability to meet its mission. Many of the long-standing open audit recommendations relate to PBGC's contracting practices; critical issues OIG is currently addressing have been caused or exacerbated by poor contract management. These issues could have been avoided through effective contract management, including careful contract monitoring, appropriate acceptance or rejection of deliverables based on quality, and evaluation of contractor performance. PBGC senior leaders need to reinforce the idea that allowing a contractor to provide a deliverable of lesser quality than required by the contract constitutes a form of waste or abuse, and could even be fraud.

*Information technology
and contractor oversight
remain high risk areas
for PBGC.*

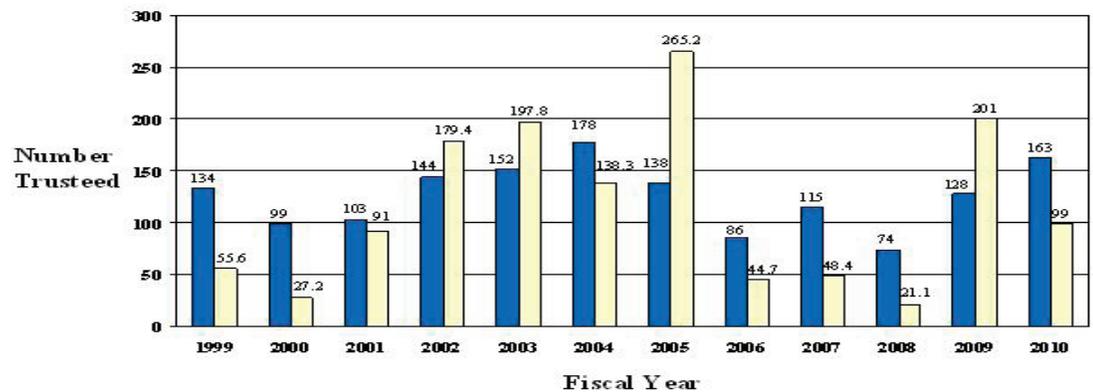
PBGC needs to strategically prepare for potential workload influx.

Inspector General Batts highlighted ongoing work that addresses these contracting issues, including the poor quality of the National Steel plan asset audit conducted by a contractor and not properly overseen by PBGC (reported above, page 1). She also reported on our recently issued audit report addressing Congressional concerns about PBGC’s readiness to address a potential workload surge from terminated pension plans (reported immediately below, page 12). Ms. Batts concluded that these IT and procurement weaknesses have organization-wide impact; thus PBGC should target its oversight and management efforts on effective execution of corrective action plans and, for those corrective action plans that are long-range in nature, interim measures should be developed and implemented to minimize risk.

Evaluation of PBGC’s Strategic Preparations for a Potential Workload Influx
 EVAL-2011-1 /PA-09-65
 (<http://oig.pbgc.gov/audit/2011/pdf/PA-09-65.pdf>)

In response to a request from Senator Herbert Kohl, the Chairman of the U.S. Senate Special Committee on Aging, we initiated an evaluation of whether PBGC was taking steps to strategically prepare the Corporation for a possible influx of pension plans and their participants in light of reports of financial distress in certain companies that sponsor large defined benefit plans.

Plans and Participants Trusted by PBGC



Though a “tsunami-like” surge of terminated pension plans and participants did not occur, as some had anticipated, in 2009 PBGC did become responsible for paying the benefits of more than 201,000 participants – the third largest intake in PBGC’s history. We concluded that PBGC should more strategically address risk by arming itself with a well thought-out strategy for addressing surges in workload volume, as well as a variety of workable tactics that could be used under a variety of situations. Unless the Corporation completes readiness exercises and develops necessary tactics, PBGC leadership will not know whether the agency is ready to meet the challenge of a major influx.

Although the Corporation did perform some minimal planning for a potential influx, its activities were generally simplistic and linear. Management issued a “data call” to all departments at the same time and then compiled the resulting data, without

performing substantive analysis. We observed that PBGC executive leadership discounted the value of comprehensive planning activities, in part, due to the belief that a playbook approach, explicitly detailing the steps to be taken, was impractical. PBGC believed that a workload surge could take many varied and unpredictable forms and that the only practical option was reliance on the Corporation's ability to develop and implement an "ad hoc" approach, in the event that a workload surge materialized. Based on our review, we identified a number of specific activities that the Corporation could take to enhance its readiness in the event of a workload surge, such as:

- PBGC's plans should reflect the interdependencies between organizational units. PBGC developed its plan to address a potential workload surge without considering how decisions and actions to be taken by PBGC's core business functions (e.g., Department of Insurance Supervision and Compliance and Benefit Administration and Payment Department) would affect or be affected by the decisions and actions of PBGC's support functions (e.g., information technology, facilities, human resources, and procurement). PBGC developed estimates of resource needs based on changes in the number of participants – a linear approach – but did not refine the results by considering potential changes in tactics that might occur in the event of a workload surge. The resulting disconnect between the actions of core and support functions reduced the usefulness of PBGC's resource planning.
- PBGC's plans should be based on consistent, documented methodologies. The data call did not include specific instructions regarding how to develop estimates. During our evaluation of the data call submissions, we identified inconsistent methodologies in calculating estimated resources. Further, not all departments maintained records of their methodology and basis for resource requests – a limitation that prevented effective analysis of the data.
- PBGC's plans for a workload surge should support the Corporation's overall strategic planning process. We concluded that PBGC took a "point in time" approach to planning for a potential influx of participants. As the former Chief Administrative Officer stated, "it was a mini-budgeting exercise." We concluded that PBGC did not experience long-term benefits from the planning exercise, due – at least in part – to the lack of a strategic focus. PBGC missed several opportunities to build on the "point in time" planning exercise. For example, a more strategic planning process (in lieu of the "point in time" approach) might have resulted in decisions about options for obtaining additional staff, to include positioning PBGC to make use of tactics such as hiring re-employed annuitants, the career intern program, or expansion of the existing federal full-time equivalent (FTE) process.
- PBGC has not recognized the significant role of contract staff in its plans for a potential influx of terminated pension plans. PBGC's Human Capital Strategic Plan addresses the federal workforce but is largely silent with respect to PBGC's contract workforce. The omission is significant, given that the Corporation utilizes nearly two contract staff for every one federal employee. PBGC should

PBGC's limited workload influx planning did not recognize significant role of contract staff.

PBGC is still impacted by information technology decisions made during the last workload surge.

acknowledge the critical role of contractors in future strategic and human capital decisions. The support and knowledge base that contractors provide is critical to the achievement of PBGC's mission. PBGC management should either develop a stand-alone human capital plan that addresses contractors and associated issues or dedicate a section in the human capital strategic plan to reflect the importance of contractors in meeting the current agency mission and future needs.

- PBGC plans should prepare the Corporation for future workload surges. Financial uncertainties will continue to present potential challenges to PBGC's ability to deal with a surge in workload. PBGC is listed in the GAO's High Risk list, in part, because it continues to be "exposed to the threat of terminations of large underfunded pension plans sponsored by financially weak firms." The future is difficult to predict. PBGC acknowledged in its FY 2010 Annual Report that no reasonable estimate could be made of 2011 terminations. That uncertainty, together with the exposure noted by GAO, provides sufficient reason for PBGC to expand and enhance its planning for possible workload surges.

Our evaluation of PBGC's strategic preparedness highlighted two additional areas of continued high risk for the Corporation -- IT and procurement.

Information Technology Concerns

- We found that PBGC continues to feel the after-effects of the influx of plans and participants that occurred between FY 2002 and 2005, when PBGC became responsible for record numbers of terminated pension plans and participants. The Corporation's fragmented and stove-piped IT environment arose as a result of a PBGC management mandate to meet urgent mission objectives, resulting in the implementation of a variety of widely dissimilar and incompatible technologies to cope with the influx of plans. We observed that PBGC had the opportunity to use the influx of FY 2002 – 2005 as a dry run from which to learn lessons that could have been used to prepare for a future workload surge. However, the Corporation did not adequately consider ways to mitigate the types of problems that were previously encountered. As a result, the planning and resource documents prepared by the Office of Information Technology and the various business units did not directly address actions that PBGC could take to avoid repeating the mistakes of the past.
- PBGC did not fully assess its current capacity and future needs, to include identifying network weaknesses and bottlenecks. Uncertainty existed whether PBGC's infrastructure could support a large influx of participants and the associated additional worksites that might be needed. PBGC mission activities are highly dependent upon IT, including the business network. Development of a comprehensive IT performance and capacity management plan would help ensure PBGC's ability to handle a workload surge without deterioration of service.
- PBGC had not developed a capacity plan that documents the current levels of resource utilization and service performance. For a number of years, PBGC had been operating at an "ad hoc" level of performance and capacity management

by adding servers and storage only to support a current project with little regard for the long-term strategic implications. As a result, PBGC had not been able to forecast future requirements for IT services and resources, and performance levels were at risk.

Procurement Concerns

- One of the major tactics that PBGC plans to use in the event of a workload surge is expanding its workforce through modifications to current PBGC services contracts or entering into new contracts. Although the plans of several departments called for hiring contractors to fill gaps in critical skills and competencies and, in some cases, department officials told us they had “assumed” that current contracts could be amended, the Procurement Department was not consulted about the feasibility of these plans. PBGC officials identified multiple contracts that would require modifications to meet increased demand for pension plan processing, to include actuarial, investment management, and document management contracts. However, PBGC did not develop a process for ensuring that identified contracts could be expanded as needed or that necessary federal personnel resources would be available and ready to support the award and oversight of new contracts.

Based on the results of our evaluation, we concluded that PBGC could enhance its ability to deal with a potential influx by:

- Developing a coordinated approach for addressing PBGC’s influx preparedness, to include a strategic plan and associated tactics for ensuring that PBGC can continue to meet its mission under a range of possible workload scenarios;
- Ensuring that plans reflect the importance of contractors to PBGC’s strategic approach;
- Analyzing lessons learned from the surge in volume that occurred during FY 2002-2005, which contributed to a number of PBGC’s current IT issues, and preparing ways to mitigate the risk of similar future problems; and
- Ensuring the feasibility of plans and making necessary refinements to position PBGC for readiness to address an increased workload, including the development of plans to expand existing contracts and a capacity management plan to ensure systems are ready to support increased network and bandwidth usage.

The Chief Operating Officer responded to our report, noting PBGC’s conclusion that the risk of a large influx of plans is much lower now than anticipated in 2009. Further, the response stated management’s belief that the resources needed to address the report’s recommendations would be better used in other higher priority areas. Accordingly, instead of implementing OIG’s recommendations as written, PBGC proposed the creation of a Large Influx Working Group (LIWG) Planning Document as a basis for alternative actions to address the recommendations. OIG advised PBGC that a determination of whether PBGC’s response is sufficient for an agreed-to management decision can be made only after PBGC completes the LIWG Planning Document and OIG has had an opportunity to review the specific elements of the proposed document. By the end of the reporting period, no such document had been provided to OIG.

There is no management decision on this report as PBGC has not developed its proposed alternate actions.

OIG work continues to identify information technology weaknesses.

PBGC's Information Technology Poses Significant Risk

PBGC is well aware that it has significant IT weaknesses – in the most recent audit of PBGC's financial statements, PBGC received an adverse opinion on its internal controls for the second consecutive year based on significant IT issues that comprise a material weakness, resulting from inadequacies in entity-wide security, access control, and configuration management (see financial statement audit reporting, pages 18-23). Our work continues to identify previously unknown or unaddressed IT vulnerabilities and the Corporation has made only limited progress in its strategic corrective action plans.

PBGC's Actions to Correct Long-standing IT Weaknesses Are Lagging

In March 2010, PBGC developed a multi-year Corrective Action Plan (CAP) with the intention of implementing a more effective process to address fundamental security weaknesses in addition to enhancing the aging IT infrastructure. However, our FY 2010-2009 Internal Control work showed that PBGC had not made significant progress in implementing the recently developed CAP. We found that few major corrective actions will be completed prior to the conclusion of FY 2011, other than the re-certification of the General Support System. Periodic briefings of IT progress subsequent to the financial statement audit have shown that many of the subsidiary CAPs remain without details and some implementation dates have changed. Through reports and briefings, OIG has expressed concerns to PBGC leadership regarding the lack of interim corrective actions to mitigate risk while long-term measures are being developed (see, e.g., synopsis of Report on Internal Control, pages 20-22). PBGC management has stated that controls are being put in place to ensure the protection of PBGC systems and data. We will assess PBGC's interim measures during our FY 2011 internal control testing in the financial statement audit.

FY 2010 Federal Information Security Management Act (FISMA) Submission to the Office of Management and Budget
LTR-2011-4/FA-10-69-3
(<http://oig.pbgc.gov/audit/2010/pdf/fisma.pdf>)

The Federal Information Security Management Act (FISMA) requires federal entities to report annually to the Office of Management and Budget (OMB) on the state of their information security. FISMA also requires Inspectors General to conduct independent annual evaluations of agencies' security programs and practices and to report the results to OMB. In conjunction with the financial statement audit, we contracted with Clifton Gunderson to perform, under OIG oversight, an independent evaluation to assess the effectiveness of PBGC's information security program and practices and to determine compliance with the requirements of FISMA and related information security policies, procedures, standards, and guidelines. PBGC received an adverse opinion on internal control as part of the annual financial statements audit largely as a result of IT weaknesses; PBGC management recognizes that IT infrastructure and environment weaknesses will continue to pose a threat for several years while

corrections are implemented. We reported deficiencies in PBGC's security management, access controls, configuration management, and segregation of duties.

The Corporation has taken some steps to develop and begin implementation of multi-year CAPs to address security issues. In addition to hiring the Bureau of Public Debt to assist with its IT security plans, PBGC has procured and installed some new hardware into its infrastructure, as it works toward modernization. Effective implementation of the CAPs will require PBGC's unwavering commitment of people and resources to ensure detailed action plans and appropriate metrics are developed and milestones are met timely.

**Fiscal Year 2010 Vulnerability Assessment, Penetration Testing,
and Social Engineering Report**
EVAL 2011-7/FA-10-69-6
(<http://oig.pbgc.gov/audit/2011/summaries/FA-10-69-6.html>)

As part of the annual financial statement audit, our independent public accountant conducted a vulnerability assessment and penetration tests of PBGC's information security infrastructure to discover possible weaknesses in logical security controls and to exploit discovered vulnerabilities. In its assessment, Clifton Gunderson found major issues of concern, including the need to apply patches and updates timely, deploy passwords to certain applications, replace Windows 2000 servers, and standardize technologies.

Critical and high severity vulnerabilities are defined as vulnerabilities where a successful exploit (1) may result in catastrophic physical or property damage or loss or catastrophic loss of revenue or productivity, (2) render between 76% and 100% of the environment at risk, and (3) the loss of confidentiality, integrity, or availability is likely to have a catastrophic adverse effect. Clifton Gunderson's testing disclosed a large number of critical and high severity vulnerabilities as well as several thousand medium and low vulnerabilities. During testing, certain vulnerabilities were successfully exploited, indicating the need for prompt and effective corrective action.

Because this report contains sensitive information, only the transmittal letter, which contains a high-level discussion of the issues identified, is on the OIG website.

*Critical and high
vulnerabilities were
identified in our IT
assessment.*

Fiscal Year 2010 Federal Information Security Management Act (FISMA)
Independent Evaluation Report
EVAL 2011-9/FA-10-69-8
(<http://oig.pbgc.gov/audit/2011/pdf/fa-10-69-8.pdf>)

As a result of FISMA audit work, we issued a report to provide detailed information on the results of our review of PBGC's information security program. Our evaluation showed that PBGC has not established an effective information security program. The report's three FISMA findings with seven recommendations were based on the results of our FY 2010 independent evaluation. In addition, 19 FISMA-related findings with 42 recommendations were reported in the Corporation's FY 2010 internal control report based on our FY 2010 financial statements audit work.

The results of our review were similar to those found during our prior year (FY 2009) audit; in that report we explained that PBGC had not established an effective information security program and had not been proactive in reviewing security controls and identifying areas to strengthen this program. In response, PBGC developed and began implementing a multi-year CAP to address security issues at the root cause level. PBGC management realizes these weaknesses will continue to pose a threat to its environment for several years while corrective actions are being implemented. PBGC will need to implement interim corrective actions to ensure fundamental security weaknesses do not worsen as the CAP is being implemented.

PBGC's management stated their general agreement with all recommendations in the FY 2010 report. However, PBGC revised its approach regarding the establishment and monitoring of the entity-wide plan of action and milestones (POA&M), as noted in its response to the FY 2009 report. Before we can agree to the revised approach, OIG will need additional details to ensure that process includes the identification, review and correction of issues and items that fall outside the POA&Ms for major applications or PBGC's general support systems.

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

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2010 and 2009 Financial Statements
AUD-2011-2/FA-10-69-1
(<http://oig.pbgc.gov/audit/2011/pdf/FA-10-69-1.pdf>)

Unqualified Opinion on Financial Statements

For the 18th consecutive year, our audit of PBGC's Single-Employer and Multiemployer Program Funds concluded that the financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In this unqualified or "clean"

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

As of September 30, 2010, PBGC reported net deficit positions in the Single-Employer Program Fund of \$21.6 billion and in the Multiemployer Program Fund of \$1.4 billion. While PBGC has been able to meet its short-term benefit obligations, as noted in our audit report and discussed in Note 1 to the financial statements, PBGC management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

As an insurer, PBGC is required to estimate the loss exposure that is reasonably possible as a result of unfunded vested benefits in not-yet-terminated pension plans. Our report explained that PBGC estimated the loss exposure that is reasonably possible for the Single-Employer and Multiemployer Programs to be \$169.7 billion and \$20 billion, respectively. For the Single-Employer Program, PBGC estimated this liability using data for FYs ending in calendar year 2009 from filings and submissions to the government (which was the latest available) and from corporate annual reports. This estimated liability amount had not been adjusted for economic conditions through September 30, 2010. As a result the exposure to loss for the Single-Employer Program as of September 30, 2010, could be substantially different from the estimate reported in PBGC's financial statements.

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

Compliance with Laws and Regulations

Our tests of PBGC's compliance with selected laws and regulations did not disclose any instances of reportable non-compliance. However, because the objective of the audit was not to provide an opinion on overall compliance with laws and regulations, no such opinion was expressed.

Adverse Opinion on Internal Control

For the second consecutive year, we reported that PBGC had not maintained effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations and its operations as of September 30, 2010. The material weakness described below was serious enough to result in the expression of an adverse opinion on internal control. Three significant deficiencies were reported, including deficiencies in PBGC's (1) entity-wide security program planning and management, (2) access controls and configuration management, and (3) integrated financial management systems. The combination of significant deficiencies in PBGC's internal control was considered to be a material weakness.

Since the time of the first adverse internal control opinion in the FY 2009 financial statements audit report, PBGC has made only minimal progress. Though it has

PBGC received the 18th consecutive unqualified audit opinion, but an adverse opinion on internal control.

Interim corrective actions are needed to protect PBGC's information and systems.

initiated efforts in the reorganization and improvement of its security planning and management through the design and implementation of a more coherent strategy to manage its information systems, these efforts are not complete.

**Report on Internal Control Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2010 and 2009 Financial Statements Audit
AUD-2011-3/FA-10-69-2
(<http://oig.pbgc.gov/audit/2011/pdf/FA-10-69-2.pdf>)**

As part of the annual financial statements audit discussed above, Clifton Gunderson prepared an internal control report to provide more detailed discussions of the specifics underlying the significant deficiencies and material weakness reported in the internal control opinion of the combined Independent auditor's report. PBGC's response to this internal control report indicated management's agreement with and their commitment to addressing each recommendation, and to remediating the associated material weakness.

The internal control report provided details about significant deficiencies in the following areas, which combined constitute a material weakness:

1. Entity-wide Security Program Planning and Management;
2. Access Controls and Configuration Management; and
3. Integrated Financial Management Systems.

The combination of these three significant deficiencies constituted a material weakness in internal control.

- Entity-wide Security Program Planning and Management – An entity-wide information security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures.

During FY 2010, PBGC decided to develop and implement a series of multi-year CAPs to address fundamental weaknesses in its entity-wide security program planning and management. PBGC entered into an Inter-Agency Agreement with the Bureau of Public Debt to assist the Corporation in reassessing its security program and developing a framework for implementing a more coherent strategy for correcting fundamental IT security weaknesses at the root cause level. These weaknesses will continue to pose a threat to PBGC's environment for several years while corrective actions are being implemented. Because many of these CAPs will not begin until 2012-2013 and are not scheduled for completion until 2015, we have noted the exigent need for interim corrective action to protect PBGC's information and systems. (See pages 14-17 for a discussion of IT progress.)

One long-standing issue is PBGC's failure to have an effective Certification & Accreditation (C&A) program to provide security assurance about its IT systems. PBGC abandoned its former C&A methodology and is working with BPD to revise and strengthen its C&A process to ensure security weaknesses are addressed at the root cause level. PBGC did not conduct any C&As in fiscal year 2010, though it continues to operate all of its systems with few, if any, interim security measures to mitigate risk.

- Access Controls and Configuration Management – We reported that PBGC's decentralized approach to system development, system deployment, and configuration management created an environment that lacked a cohesive structure in which to implement controls and best practices. Weaknesses in the IT environment contributed to deficiencies in system configuration, segregation of duties, role-based access controls, and monitoring. Furthermore, PBGC's information systems were overlapping and duplicative, employing obsolete and antiquated technologies that were costly to maintain. The state of PBGC's IT environment led to increased IT staffing, manual workarounds, additional reconciliation procedures, extensive manipulation, and excessive manual processing. However, these compensating controls were ineffective in mitigating system control weaknesses.

Ineffective access and configuration management controls did not provide PBGC with sufficient assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction. Access controls should be in place to consistently limit, detect inappropriate access to computer resources (data, equipment, and facilities), or monitor access to computer programs, data, equipment, and facilities, thereby protecting against unauthorized modification, disclosure, loss, or impairment. Configuration management and control procedures are critical to establishing an initial baseline of hardware, software, and firmware components and subsequently controlling and maintaining an accurate inventory of any changes to the system.

These weaknesses will continue to pose a threat to PBGC's environment for several years while corrective actions are being implemented. Thus, PBGC will need to implement interim corrective actions to ensure fundamental security weaknesses do not worsen over the planned five-year CAP implementation.

- Integrated Financial Management Systems – As reported in prior year audits, the risk of inaccurate, inconsistent, and redundant data was increased because PBGC lacked a single integrated financial management system. The system could not be readily accessed and used by financial and program managers without extensive manipulation, excessive manual processing, and inefficient balancing of reports to reconcile disbursements, collections, and general ledger data.

OMB Circular A-127, Financial Management Systems, requires that Federal financial management systems be designed to provide for effective and efficient

Three significant deficiencies comprise the material weakness in the internal control opinion.

interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. This Circular states:

- The term “single, integrated financial management system” means a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls and data necessary to carry out financial management functions, manage financial operations of the agency and report on the agency’s financial status to central agencies, Congress and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency’s mission and support the agency’s financial management needs.

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

**Audit of the Pension Benefit Guaranty Corporation’s
Fiscal Year 2010 and 2009 Special-Purpose Financial Statements
AUD-2011-5/FA-10-69-4
(<http://oig.pbgc.gov/audit/2011/pdf/FA-10-69-4.pdf>)**

As part of the annual financial statements audit, Clifton Gunderson also audited the PBGC Fiscal Year 2010 and 2009 Special-Purpose Financial Statements. The auditors concluded that the special-purpose financial statements and accompanying notes presented fairly, in all material respects, the financial position of PBGC as of September 30, 2010 and 2009, and its net costs and changes in net position for the years then ended in conformity with accounting principles generally accepted in the United States of America and that the presentation was consistent with requirements of the U.S. Department of the Treasury (Treasury).

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

**Fiscal Year 2010 Financial Statements Audit Management Letter
AUD-2011-6/FA-10-69-5 (not publicly available)**

The annual financial statements audit process led to the identification of certain less significant matters related to PBGC internal control and operations that were not included in the internal control report (AUD-2011-3/FA-10-69-2), discussed above. The management letter summarized findings that resulted in 19 new recommendations regarding those less significant matters and reported on the status of 33

recommendations that remain open from prior years' management letter recommendations.

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

- payment and processing of benefit payments;
- contract administration;
- approval of speaking engagements; and
- internal processing of travel, personnel actions, and performance plans.

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

Senator Brown's Constituents Raise Issues on Pension Plans

Letter to Senator Sherrod Brown Regarding Republic Technologies Inc.

LTR-2011-8

(http://oig.pbgc.gov/reports/pdf/Brown_Letter.pdf)

At the request of Senator Sherrod Brown (D-OH), we conducted limited scope inquiries on various issues raised by some of his constituents concerning PBGC's actions in terminating the Republic Technologies International, LLC (RTI) pension plans. Of particular concern was an agreement entered into in 1998 between PBGC and RTI for the company to put an additional \$177.7 million into the pension plan. The agreement between PBGC and RTI was made under the umbrella of PBGC's "Early Warning Program," which focuses on transactions that pose a risk of long-run loss to PBGC's pension insurance program, and typically involves transactions by troubled companies and by companies whose plans are underfunded on a current liability basis. If PBGC determines a transaction could result in a significant increase in the risk of loss under section 4042(a)(4) of ERISA, PBGC may negotiate protections for the pension insurance program, which might include additional cash contributions, letters of credit, security interests, and guarantees.

PBGC negotiated eight amendments to the RTI agreement. RTI made \$64.5 million of the additional funding payments to the plan prior to filing for bankruptcy protection in 2001. Although we did not conduct an audit in response to Senator Brown's request, we did provide a letter with information about requested RTI pension plan documents. In our letter, we stated PBGC did not have written guidance on conducting negotiations for deferral of payments in the agreements and conducted negotiations on a case-by-case basis. We also noted that while PBGC's process for determining RTI participant benefits had been complicated and lengthy, the Corporation had provided us with evidence of a detailed and well documented process for selected participant determinations.

OIG response to Congressional request addressed questions about negotiated funding agreement between PBGC and pension plan sponsor.

Investigators Engaged in Multiple Approaches to Address Pension Fraud

Article in PBGC Retiree Newsletter. OIG Hotline complaints alleging theft of benefit checks are increasing. Often, participants report that they were not aware of the risk that a trusted family member might forge their signature and cash a benefit check. Frequently, OIG investigators work with the Retiree Services Division to verify the claims of participants who report that they have not received checks. To mitigate the risk of theft and educate participants about protecting personally identifiable information, OIG published an article in the PBGC Retiree Newsletter to provide information about fraud and how to contact OIG. This newsletter was mailed to each individual who currently receives, or will receive in the future, a pension benefit from PBGC (accessible at <http://www.pbgc.gov/documents/fall2010.pdf>).

Claim for Former Spouse's Pension Benefits. The PBGC Disclosure Division referred an inquiry from a participant's former wife who wrote to PBGC inquiring about her entitlement to the pension of her deceased husband. The inquiry was referred to OIG for review due to questions about the validity of a Power of Attorney filed by the participant's companion.

Our investigation determined that in 2008, three weeks prior to the death of the participant from a terminal illness, PBGC received a Participant Application for Pension Benefits that appeared to have been completed and signed by a third party. The ex-wife made a claim for benefits and disputed the entitlement to benefits by the participant's companion.

We interviewed the third party who produced a validly signed Power of Attorney dated three months prior to the participant's death. The companion explained that she was aware that she would not receive benefits. Our investigation confirmed that the participant had not elected to receive his pension with a survivor benefit, therefore, neither the ex-wife nor companion was entitled to benefits.

Prevention of Benefit Check Fraud. A check cashing facility in Washington State contacted OIG indicating that a customer had attempted to cash a PBGC benefit check with what appeared to be alterations in the name of the payee. Upon our determination that the customer attempting to cash the check was not the intended recipient, we alerted PBGC of the attempted fraudulent activity and recommended placing a stop payment on the check. As a result of our timely actions, a stop payment was placed on the benefit check which prevented a potential loss of the participant's benefits. OIG referred the matter to local law enforcement for further action.

Funds Recovered from Intercepted Check. The Miami FBA office referred a participant's claim he did not receive a lump sum payment he should have received. Our investigation revealed that the ex-wife of the participant completed an

*Participant's wife
misappropriated
benefit check
and paid funeral
expenses.*

application for lump sum payment, using the participant's name and identifying information, and directed that the check to be mailed to her residence. We discovered that when the former spouse received the check, she asked the local funeral home to cash the check and settle outstanding burial expenses. OIG recovered the benefit funds from the funeral home and coordinated with the PBGC Retiree Services Division (RSD) to have a replacement check issued to the participant. Although we referred the case to the appropriate federal authorities, prosecution was declined.

Assistance with Identity Theft Issues. The RSD reported to OIG that, in a pension plan for which PBGC was responsible to pay benefits, participants had been identified who appeared to be illegal aliens, employed under another person's name and social security number. The RSD sought assistance from OIG on methods to identify, locate, and verify the correct participants for lump-sum payments.

When retirement benefits have been earned by workers under a false name and social security number -- a form of identity theft -- the risk exists that the benefits may be claimed by the victim of the identity theft, even though the victim did not actually earn the benefits and is not entitled to them. Programs like PBGC's Missing Participant program increase the likelihood that a victim of identity theft may learn of benefits earned by someone using the victim's stolen identity. Identity theft victims who learn of benefits earned by thieves may be tempted to cash in by claiming retirement benefits to which they are not entitled. We are continuing to work with RSD to support them in ensuring that PBGC payments are made only to workers who actually earned benefits, and to reduce the risk of unearned payments to victims of identity theft.

Investigations of Alleged Wrongdoing

Attempted Promotion Fraud by PBGC Employee

An employee resigned after receiving a letter of proposed removal from the Office of Personnel Management based on false statements regarding the employee's education that were discovered in the employee's background investigation. Upon clearing out the employee's workspace, PBGC found a personnel action letter requesting approval to appoint the employee to a new position at a salary level four grades above her current salary level, based on her superior qualifications. The letter, which was on PBGC letterhead, appeared to bear the signatures of multiple PBGC managers as required to effectuate the promotion.

We verified that the responsible managers had not recommended the employee for promotion. Each of the managers confirmed that the signatures and/or initials on the letter were not theirs. We found that the employee had not been promoted, demonstrating that the attempted fraud had not been successful. The PBGC employees who found the questionable document acted appropriately in referring it to our office.

*PBGC employees
correctly identify
"fake" promotion
documentation.*

Allegations of Abuse of Position and Interference with Investigation

The Office of General Counsel referred an allegation to OIG when it appeared a manager had interfered with an ongoing investigation conducted by the Harassment Investigation Committee (HIC). While the HIC was considering an allegation from a contractor that the manager had engaged in sexual harassment, the manager and his department director reinstated a task order for the contractor to conduct work that had previously been cancelled because it was determined to be “out of scope” of the contract. It appeared that the task order reinstatement may have been an inducement for the contractor to cease pursuit of her sexual harassment allegation.

OIG investigators acted quickly to collect the facts and found that the department director made the decision to reinstate the task order, in consultation with several department managers including the alleged discriminator and a procurement official, to avoid some potential conflicts of interest and duplicative work with another contractor. While the department director did know that this contractor had filed a complaint of sexual harassment against the particular manager, he did not know the allegation’s details as he immediately referred it to “the ethics folks.” We concluded that, though the timing of certain actions created an appearance of interference in the investigation, the evidence substantiated a determination that neither the alleged discriminating manager nor the department director had acted improperly with respect to the HIC investigation.

Open Audit Recommendations

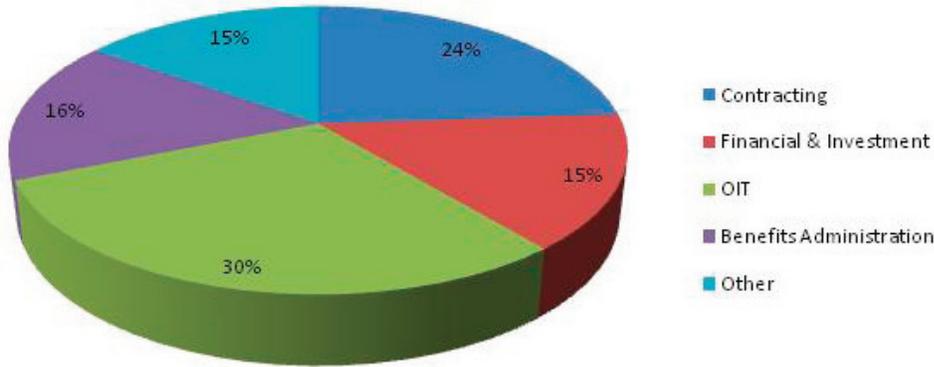
As of October 1, 2010, the beginning of the reporting period, a total of 163 audit recommendations were open. Reports issued during the period added 43 more recommendations, bringing the total number to 206. Only one recommendation was closed during the period, although progress was reported in a number of areas. We note that PBGC submitted 52 Recommendation Completion Forms (RCFs) during the period: 15 related to financial statement audit recommendations and 37 related to other OIG audits. As of March 31, OIG was assessing the effectiveness of PBGC’s actions. During the period ending September 30, we will communicate to PBGC whether evidence for the 37 RCFs is sufficient to close the recommendation or further work is needed. Those RCFs related to financial statement audit recommendations will be reviewed as part of this year’s audit. With regard to contracting and procurement, OIG has initiated an audit engagement that will assess the effectiveness of corrective actions taken in response to many of the open audit recommendations.

As of March 31, 2011, 205 audit recommendations remain open. These recommendations address a range of issues, from the most serious problem affecting PBGC to relatively minor compliance issues. In some cases, we met with PBGC officials to discuss management’s reported corrective actions when we determined that what had been done was not sufficient to fully address the recommendations. As warranted, we provided detailed memoranda outlining the need for additional information. Many of our comments related to management’s need to test the corrective action to ensure it had been fully implemented and was effective.

***PBGC took actions
to address 52 of
the open audit
recommendations.***

The following chart shows the distribution of open recommendations based on the subject of the recommendation. More than half of the recommendations relate to needed improvements in either information technology or contracting.

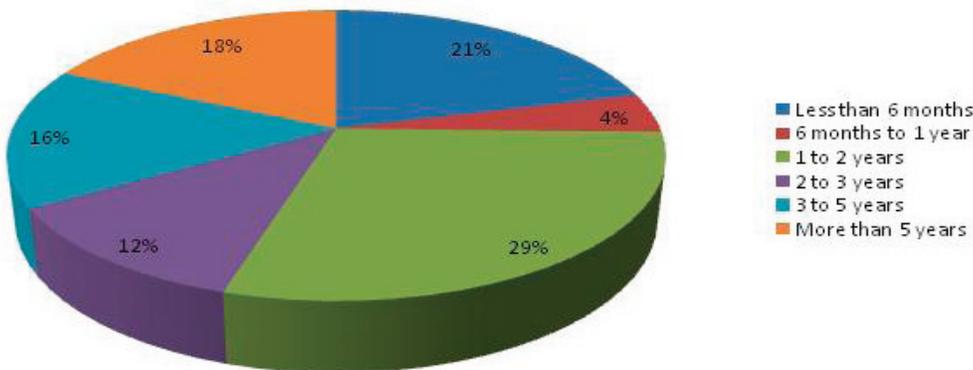
Open Recommendations as of 03/31/2011 by Type



Note: Of the 205 open audit recommendations included in this chart, as of March 31, 2011, PBGC had submitted evidence for consideration of closure for 52 recommendations: 34 were in Contracting, 4 in Financial & Investment, 9 in Benefits Administration, and 5 in Other.

Many of our recommendations have been open for prolonged periods of time. 93 of the recommendations are more than two years old. 37 recommendations (about 18 percent) are more than five years old; many of the recommendations address the need for improvements in contracting practices and should be implemented in the near future. Other recommendations that have persisted for more than five years address weaknesses in PBGC’s existing automated premium accounting system; these recommendations will likely remain open until PBGC can implement its new system for premium accounting.

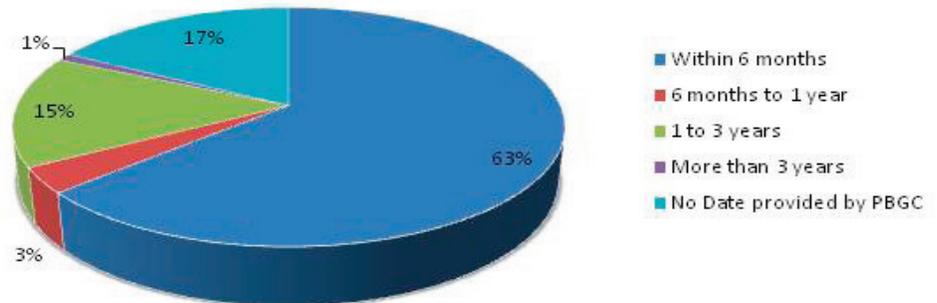
Aging Schedule of Open Recommendations



PBGC has made correcting procurement-related findings a priority.

PBGC reports that it plans to complete many of its open recommendations in the near future. As shown by the following chart, more than 130 of the 205 recommendations (63%) are scheduled for completion within the next six month period. About 68 of the recommendations will not be completed for at least a year. Certain recommendations relating to PBGC's information technology security are not scheduled for completion until 2015 and 35 (17%) of the recommendations do not have a date of planned completion. PBGC should ensure effective interim measures to address the issues that will remain open for several years.

Estimated Time of Completion for Open Recommendations



Despite the fact that many recommendations remain open, overall, we are encouraged by management's emphasis on correcting noted deficiencies, testing their actions and submitting complete documentation to support closure of open audit recommendations. OMB Circular A-50 notes that "Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of government operations."

Other OIG Reporting

Access to Information

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

Management Decisions

The Inspector General is required to report the following about management decisions on audit reports that occurred during this six-month period:

- There are two audit reports for which management decision is pending. One report is more than six months old (see Appendix, page 39). The second report is described on page 12.
- There were no significantly revised management decisions.
- There were no management decisions of a material nature with which we did not agree.

Audit Peer Review Results

In an external peer review of the PBGC OIG's audit program for the year ending September 30, 2009, we received the highest possible peer review rating, a rating of "pass." The "pass" rating means that the external reviewer determined that our system of quality control was suitably designed and our adherence to this system provided reasonable assurance that we performed work and reported results in accordance with professional standards.

Government Auditing Standards require each audit organization to obtain an external review of its system of quality control every three years and make the results publicly available. In addition, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Inspector General is required to report the results of its peer review in its semiannual report to Congress.

The peer review was conducted by the Federal Communications Commission (FCC) during the first quarter of FY 2010, with the opinion issued on January 26, 2010. A copy of this peer review is found at our website: http://oig.pbgc.gov/audit/2010/pdf/PBGC_Peer_Review_Report_2009.pdf.

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Other Office of Inspector General Activities

Review of Proposed Statutory and Regulatory Changes

A major responsibility of the OIG under the Inspector General Act is the independent review of PBGC-proposed changes to laws and regulations. There were no significant PBGC statutory proposals this period, and OIG did not review any new proposed regulations.

New Strategic Plan

The Inspector General issued a new strategic plan for 2011-2016, a copy of which is included at the end of this report. Our plan establishes goals related to performance, communication with our stakeholders and our workforce, strategies to achieve these goals, and metrics for each. We will report on our performance in accordance with our strategic plan in future semiannual reports.

*OIG adopted a new
Strategic Plan.*

Audit Peer Review of CPB

We conducted a quality control review of the audit operations of the Office of Inspector General of the Corporation for Public Broadcasting (CPB). External peer reviews are conducted within the OIG community to evaluate the audit organization's system of internal quality control and to ensure that it complies with generally accepted government auditing standards (the GAO Yellow Book). As part of the peer review, we evaluated the CPB OIG's staff qualifications, their independence, audit work, training, and quality control procedures. The results of this peer review can be found on the CPB OIG's website at www.cpb.org/oig.

Enhanced Independence by Contracting for HR Services

Effective January 1, 2011, we entered into an interagency agreement with the National Business Center (NBC) of the Department of Interior to provide most of our human resources services, including position classification, recruitment, hiring, and retirement counseling. In addition, NBC is providing human resources information to staff and advice and support to managers as they exercise supervisory responsibilities.

We strongly support our staff, at all levels, participating in activities to positively impact the Federal government.

External and Internal Professional Activities

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

- The IG participates in the Council of Inspectors General for Integrity and Efficiency (CIGIE) that promotes collaboration on integrity, economy, and efficiency issues that transcend individual agencies. Ms. Batts serves as the co-chair of the CIGIE Information Technology Committee (see details below) and as a member of the Audit Committee. She also serves as the CIGIE delegate to the Chief Financial Officer's Council.
- The IG co-leads the CIGIE IT Committee which facilitates effective OIG information technology audits, evaluations, reviews, and investigations throughout the Inspector General community and provides the community's perspective on government-wide IT operations. Committee activity during this semiannual period addressed a wide range of issues, including cloud computing and the contract clause language needed to ensure meeting the unique needs of the Federal IG community in future cloud computing contracts, digital forensic standards including the IG community approach to review of compliance with those standards, and the Trusted Internet Connections (TIC) Initiative including efforts to secure the OIG network boundary.
- The IG and Assistant IG for Investigations (AIGI) participated as guest speakers in a session of the Executive Leadership Training sponsored by CIGIE. This course is attended by GS-13s and GS-14s from throughout the IG community. The focus of their presentation was the value of networking within the OIG community to achieve mission goals and objectives.
- The IG served on the planning committee for the second annual "Key Executive Leadership Forum" at American University. The theme was "Bridging Academics and Application," with sessions on new theories of leadership, adult learning and effective feedback, as well as practical applications. The conference was held in May and, while open to all, was focused on the graduates of the Masters of Public Administration program jointly sponsored by CIGIE and American University.
- The Assistant IG for Audits serves on the Accounting and Audit Policy Committee (AAPC) 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. During period the AAPC issued two exposure drafts for public comment. These documents concerned technical guidance for estimating the historical cost of general property plant and equipment (G-PP&E) and accounting for the disposal of G-PP&E.
- At the request of the CIA Inspector General, the AIGI is serving with others from the OIG community on an external advisory committee to implement

reforms within the CIA OIG. In this capacity, the AIGI is providing guidance and suggestions to senior management about investigative best practices, as well as how best to implement the ongoing reforms.

- Our IT audit manager participates in the Federal Audit Executive Council's IT Group.
- The Special Agent-in-Charge participates in the National Procurement Fraud Task Force sponsored by the U.S. Department of Justice.
- One of our senior auditors attends the Interagency Fraud and Risk Data Mining Group (IFRDMG) quarterly meeting and training sessions. IFRDMG meets to share information among OIGs concerning the latest data analysis techniques, accomplishments using data analytics, recommended data mining software and related training.
- The AIGI continues to serve as a non-voting member of PBGC's Internal Control Committee, providing insight gained through his experience as a criminal investigator to those responsible for oversight and accountability of PBGC internal controls. Effective control systems may detect fraud or deliberate non-compliance with policies, regulations, or laws.

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Appendix

CROSS-REFERENCE TO REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

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

Inspector General Act Reference	Reporting Requirements.	Page
Section 4(a)(2)	Review of legislation and regulations.	31
Section 5(a)(1)	Significant problems, abuses, and deficiencies.	5-24
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.	26-28
Section 5(a)(4)	Matters referred to prosecutorial authorities.	24
Section 5(a)(5)	Summary of instances in which information was refused.	29
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.	37
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.	37
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	37
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.	39
Section 5(a)(11)	Significant revised management decisions.	29
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	29

SUMMARY OF AUDIT AND INVESTIGATIVE ACTIVITIES

For the Six-Month Period Ending March 31, 2011

Audit Reports Issued

Number of Reports	10
Number of Recommendations	43

Management Decisions

Open Recommendations Beginning of Period	163
Opened This Period	43
Closed This Period	1
Open Recommendations End of Period	205
Reports with Open Recommendations End of Period	42

Investigations

Pending Beginning of Period	6
Opened	6
Closed	4
Pending End of Period	8

Complaints¹

Pending Beginning of Period	11
Opened	55
Closed	51
Pending End of Period	15

Financial Recoveries²

Theft of Funds Recovered	\$3,991
Court Ordered Fines, Penalties, and Restitution	\$0
U.S. Government Property Recovered	\$0

Criminal Actions²

Arrests, Indictments, Convictions	0
-----------------------------------	---

Administrative Actions²

	0
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Referrals

For Prosecution:

Department of Justice	1
Various States' Attorney Offices	1
Declined	0

For Other Action:

PBGC Management for Corrective Action	0
---------------------------------------	---

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

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

RESULTS OF REPORTS ISSUED

For the Six-Month Period Ending March 31, 2011

	Number of Reports	Questioned Costs	Unreported Costs	Funds put to Better Use
A. For which no management decision had been made by the commencement of the reporting period.	1	\$97,581	\$0	\$0
B. Which were issued during the reporting period.				
Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2010 and 2009 Financial Statements (11/12/10)		\$0	\$0	\$0
Report on Internal Control Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2010 and 2009 Financial Statements Audit (11/12/10)		\$0	\$0	\$0
FY 2010 Federal Information Security Management Act (FISMA) Submission to the Office of Management and Budget (11/12/10)		\$0	\$0	\$0
Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2010 and 2009 Special-Purpose Financial Statements (11/15/10)		\$0	\$0	\$0
Evaluation of PBGC's Strategic Preparations for a Potential Influx (11/16/10)		\$0	\$0	\$0
Letter Report to Senator Sherrod Brown re Republic Technologies, Inc. (4/14/11)		\$0	\$0	\$0
Fiscal Year 2010 Financial Statements Audit Management Letter (2/24/11)		\$0	\$0	\$0
Fiscal Year 2010 Vulnerability Assessment, Penetration Testing, and Social Engineering Report (2/24/11)		\$0	\$0	\$0
PBGC's Plan Asset Audit of National Steel Pension Plans Was Seriously Flawed (3/30/11)		\$0	\$0	\$0
Fiscal Year 2010 Federal Information Security Management Act (FISMA) Independent Evaluation Report (3/31/11)		\$0	\$0	\$0
Total (Add A. & B.)	11	\$97,581	\$0	\$0

C. For which a management decision was made during the reporting period.	9	\$0	\$0	\$0
(i) dollar value of disallowed costs		\$0	\$0	\$0
(ii) dollar value of costs not disallowed		\$0	\$0	\$0
D. For which no management decision had been made by the end of the reporting period.	2	\$97,581	\$0	\$0
E. For which no management decision was made within six months of issuance.	1	\$97,581	\$0	\$0

¹ Unsupported costs are a subset of questioned costs.

SUMMARY OF REPORTS OLDER THAN SIX MONTHS FOR WHICH
MANAGEMENT DECISION HAS NOT BEEN ACHIEVED

Report and Summary	Reason For No Management Decision	Anticipated Management Decision
<p>Incurring Cost Audit, 2008-09/CA-0054 (9/30/2008)</p> <p>Questioned Costs of \$97,581 for unallowable costs associated with the use of unaudited indirect cost rates.</p>	<p>Management decision is pending as it awaits DCAA's completion of its incurred cost audit and settlement of indirect cost rates.</p>	<p>10/31/2011</p>

**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 Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 1995 Financial Statements 03/13/1996 and AUD-2008-2/ FA-09-0034-2 Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007</p>	1	<p>Significant Deficiency: Integrating Financial Management Systems</p>	<p>PBGC needs to complete the integration of its financial management systems.</p>
<p>2003-3/23168-2 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2002 - 2001 Financial Statements 01/30/2003 and AUD-2008-2/ FA-09-0034-2 Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007</p>	2	<p>Significant Deficiency: Entity-Wide Information Security Program Planning & Management</p>	<p>PBGC needs to complete its efforts to fully implement and enforce an effective information security program.</p>
<p>2003-10/23177-2 Review of PBGC's Premium Accounting System 10/10/2003</p>	3	<p>Control weaknesses undermine the quality and integrity of reported premium revenues.</p>	<p>PBGC needs to ensure that its automated system produces accurate and verifiable premium accounting data.</p>
<p>2008-1/FA-0034-1 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2007 - 2006 Financial Statements 11/15/2007 and AUD-2008-2/ FA-09-0034-2 Limited Disclosure Report on Internal Control - PBGC's FY 2007 and 2006 Financial Statements Audit 11/15/2007</p>	11	<p>Significant Deficiency: 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 and Date Issued	Number of Significant Recommendations	Significant Problems and Deficiencies	Summary of Significant Recommendations
<p>AUD-2009-01/FA-08-49-1 Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2008 and 2007 Financial Statements 11/13/2008 and</p> <p>AUD-2009-02/FA-08-49-2 Limited Disclosure Report on Internal Controls – PBGC's FY 2008 and 2007 Financial Statements 11/13/2009</p>	5	<p>Significant Deficiency: Entity-Wide Information Security Program & Planning Management</p>	<p>PBGC needs to complete the design, implementation and testing of security controls, implement an effective certification and review process, and correct identified access control vulnerabilities.</p>
<p>AUD-2010-09/IT-09-67 PBGC Needs to Improve Controls to Better Protect Participant Personally Identifiable Information (PII) 09/16/2010</p>	5	<p>System control weaknesses placed PII of approximately 1 million participants at risk.</p>	<p>PBGC needs to strengthen security controls and complete a certification and accreditation review of the system housing the PII.</p>
<p>AUD-2010-08/IT-09-67 Authorization to Operate PBGC Information Systems 08/18/2010</p>	4	<p>Information technology general support systems and major applications without ATOs required by OMB.</p>	<p>PBGC should seek OMB waiver allowing conditional authorization, based on ongoing efforts to improve information security.</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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Office of Inspector General
Pension Benefit Guaranty Corporation

5-Year Strategic Plan
Calendar Years 2011-2016



Pension Benefit Guaranty Corporation
Office of Inspector General
1200 K Street, NW, Washington, DC 20005-4026

March 2011

I am pleased to provide this strategic plan issued by the Pension Benefit Guaranty Corporation (PBGC) Office of Inspector General (OIG) for calendar years 2011 through 2015. In developing this strategic plan, OIG established specific goals and performance measures consistent with the spirit of the Government Performance and Results Act. PBGC OIG continues to respond to the numerous and varied issues of concern that confront the American pension system and its participants, including information technology security, investment valuation and management, and benefit payment calculations and administration. We also have initiated a program of fraud awareness and outreach for our stakeholders and participants and conducted targeted work in response to myriad Congressional requests and Hotline complaints.

In drafting this current plan our goal is to continue to help PBGC address the many challenges that will arise over the next five years. We know that PBGC faces a number of challenges, ranging from planning for the anticipated surge in pension plans terminations to responding to new legislation. In addition, OIG will continue working to deploy our own resources as effectively as possible.

This strategic plan was developed by a seasoned team with audit, investigative, and legal expertise that examined our goals and results from prior years. OIG senior leadership provided comments and input and the draft was shared with all OIG staff as well as such OIG stakeholders as PBGC officials, PBGC Board Representatives, and Congressional staff.

As Inspector General, I want to thank our dedicated OIG staff for embracing this strategic planning process. In particular, I want to personally thank Curtis Flood, Aaron Jordan, Joe Marchowsky and Jarvis Rodgers for their assistance.

I look forward to continuing to work with you over the next few years to implement this plan.

Rebecca Anne Batts

Performance Goals

Goal 1: Focus efforts on areas of highest impact on PBGC performance.

Goal 2: Make recommendations that have impact.

Goal 3: Perform timely, relevant, and high quality audits and investigations.

Strategies

Strengthen PBGC's ability to implement its missions:

- Pay benefits on time and accurately
- Protect PBGC financial integrity by collecting premiums and other sponsor obligations
- Be accountable to beneficiaries, plans, Congress, and the public.

Reduce program vulnerabilities and strengthen program integrity of PBGC's stewardship of PBGC resources.

Increase the efficiency and effectiveness with which PBGC provides service to its stakeholders.

Support PBGC in implementing its management improvement initiatives.

Tactics

Continuously monitor and assess risks in PBGC operations and programs to identify those risks critical to the achievement of our goals.

Target resources to address those critical risks.

Performance Measures

Percentage of OIG direct resources dedicated to critical risk or high-impact activities.¹

Percentage of audits and evaluations where findings and recommendations are presented to auditee within established timeframes.

Percentage of audit recommendations in which management decision is reached within 6 months of report issuance.

Percentage of investigative complaints timely converted to investigations or closed.

¹ Critical risks are matters of such significance that failure to identify and address vulnerabilities in an immediate and effective manner will have an adverse effect on integrity or resource management. Examples of critical risks include fraud that meets prosecutorial guidelines; criminal activity related to PBGC and its programs; statutorily mandated work; or audit work that involves major weaknesses that could impact PBGC strategic goals or support OIG strategic goals.

High impact activities address matters of such significance related to PBGC assets, resources and costs; congressional or public interest; or program vulnerability that addressing, assessing and ensuring the effectiveness of control systems is instrumental in avoiding an adverse impact on PBGC or its beneficiaries. Examples of high impact activities include audits that affirm the integrity of a process or determine that controls are adequate and provide a basis for communication of this conclusion to reduce public or high level (e.g., Congressional, PBGC leadership, or Board) concern; investigative results used to exonerate suspects; criminal investigations resulting in indictment, prosecution, and conviction; and OIG audit recommendations relating to critical risks and resulting in positive management decision and action to implement recommended changes.

Stakeholder Goal

Goal: Improve stakeholder awareness and understanding of OIG and its unique role.

Strategy

Effectively communicate the outcome of our work to Congress, agency management officials, the press, and members of the public.

Expand OIG's capacity to generate, disseminate, and oversee efforts to garner stakeholder input at all stages, as appropriate.

Optimize OIG's policies on communicating with stakeholders.

Tactics

Use the OIG website as a platform to inform audiences of OIG's mission to promote excellence in PBGC operations through the conduct of audits and investigations.

Inform stakeholders about the contents of OIG planning documents.

Seek opportunities for OIG professional staff to speak about OIG's ongoing work and accomplishments.

Establish OIG as a source of information about PBGC issues by increasing the frequency and variety of communications with stakeholders.

Performance Measures

Assessment of stakeholder and customer feedback solicited through interviews, surveys, and other consultations.

Feedback from visitor sessions to the OIG website.

Number of audits or other reports downloaded from the OIG website.

Number of stakeholder outreach engagements and meetings.

Number of hotline complaints and other referrals received.

Workforce Goal

Goal: Hire, cultivate and retain a highly skilled, and fully-empowered workforce.

Strategy

Strive for a highly qualified diverse workforce with the tools and training necessary to continuously enhance OIG's ability to fulfill its mission.

Tactics

Recruit, hire, train, develop, motivate, mentor, and effectively manage a diverse front-line, supervisory, and executive workforce with the technical and workplace skills necessary to facilitate succession planning and meet OIG's strategic goals and annual plans.

Enhance internal OIG communication so that all staff understand OIG's priorities and how their work helps to fulfill OIG's mission.

Use our performance planning and appraisal processes to ensure that all OIG staff are aware of how their work ties to the OIG's Strategic and Annual Plans, and that they are held accountable for how their work impacts the organization's results and how they personally support the OIG's mission, vision, core values, goals, and performance targets.

Provide timely and reliable supervisory and managerial feedback to support the effective functioning of all OIG components.

Support the integrity of OIG operations by maintaining an effective quality assurance program.

Performance Measures

OIG performance against goals set in annual plans.

Clean opinions on audit and investigative peer reviews.

Implementation of the Strategic Plan

This Strategic Plan is the first step in an ongoing strategic and tactical planning process. Within PBGC OIG, we will ensure individual and Assistant Inspector General (AIG) level accountability for achieving our strategic goals by the following:

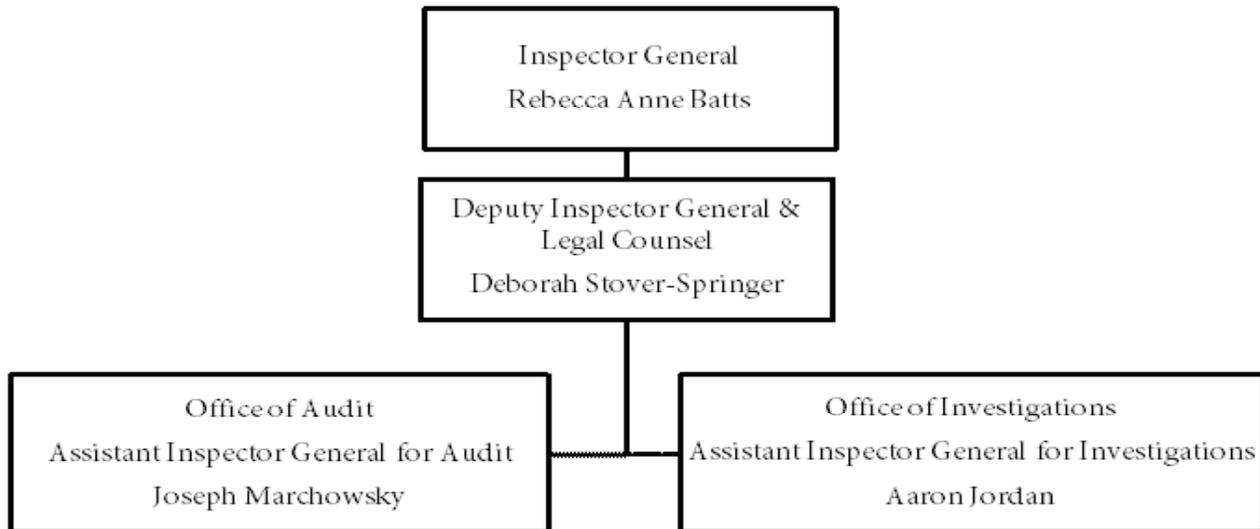
OIG will publish an Annual Performance Plan that sets specific targets for each of our performance measures for the coming fiscal year; lays out the audit, investigative, and managerial priorities for the year; and, where appropriate, discusses the specific projects that will be performed and expected initiation dates.

OIG will report on its progress against the Strategic and Annual Performance Plans in the Semiannual Report to Congress for the applicable fiscal year. The report will cover our progress against the measures, priorities, and project initiation dates listed in the Annual Performance Plan for the corresponding year.

OIG will also link employee standards and ratings to the Strategic Plan. While OIG has already begun the process of integrating these concepts into the performance standards of our staff, we expect to link the performance standards of every employee within the OIG to the OIG Strategic Plan.

By linking the Strategic Plan to annual performance plans and reports, OIG will be able to maintain focus on the goals of the Strategic Plan while allowing enough flexibility to adapt to ever-changing circumstances, such as unexpected new priorities that could arise from a major influx of pension plans; the revised expectations of stakeholders (such the increased Congressional interest in OIG review of controversial pension plan determinations); or shifting PBGC priorities.

Organizational Chart and Functional Responsibilities as of March 2011



Audit

The Office of Audit examines the economy and efficiency of PBGC programs and operations, including program results, compliance with applicable laws and regulations, and the accuracy of financial reports. While most audit work is done by in-house staff, Audit also contracts with independent public accountants for some work. OIG audits are conducted in accordance with *Government Auditing Standards* published by the U.S. Government Accountability Office.

Investigations

The Office of Investigations utilizes specific law enforcement authorities, tools, and techniques to conduct criminal, civil and administrative investigations and prevent fraud, waste, and abuse in the program and operations of PBGC. Investigative work is intended to result in appropriate actions to resolve allegations and to prevent and deter future instances of illegal or fraudulent acts or misconduct.

Legal Counsel

OIG's legal counsel provides legal advice and representation on issues arising during the course of audit and investigative activities or internal administrative and management issues. Counsel also manages OIG's congressional and media relations and reviews proposed legislation, regulations, and procedures.

The PBGC OIG Mission

Promote excellence in PBGC's operations through the conduct of investigations, audits, and evaluations designed to promote economy, efficiency, and effectiveness and prevent and detect fraud, waste, and abuse.

The PBGC OIG Vision

To be a highly effective organization that promotes positive change by identifying opportunities for improvements in the performance and efficiency of PBGC's programs and operations.

The PBGC OIG's Core Values - Excellence, Integrity, and Respect

We demonstrate excellence when our work meets the highest standards of *independence* and *quality*. Excellent work produces *results*. Further, an excellent organization is *innovative* and takes the *initiative* to address the most important issues

We demonstrate integrity by modeling ethical behavior and by working to meet and to exceed the *standards* of the professions to which our team members have been called.

We demonstrate respect for those we audit and investigate by ensuring that our work *fairly* and *accurately communicates* the results of our efforts. OIG's leadership demonstrates respect for our employees by fostering a culture that *honors the dignity of all* and OIG's work teams demonstrate respect by choosing to *work together productively and collaboratively*.

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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.

Telephone:
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