Pension Benefit Guaranty Corporation

Office of Inspector General

Semiannual Report to Congress

April 1, 2011 - September 30, 2011 and October 1 - March 31, 2012

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

The Board of Directors
Pension Benefit Guaranty Corporation

I am pleased to present the Office of Inspector General (OIG) Semiannual Report for the Pension Benefit Guaranty Corporation (PBGC). This is a consolidated report and covers two semiannual periods, April 1, 2011 through September 30, 2011 and October 1, 2011 through March 31, 2012. During this combined period, we issued eight audit and evaluation reports with 59 recommendations for improvement. We completed five investigations, resolved 104 complaints, continued investigative work on three cases that were accepted for prosecution by U.S. Attorneys' Offices during prior semiannual periods, and had three additional cases accepted for prosecution. Our investigation of a plan trustee who improperly directed plan assets to his own business ventures resulted in his pleading guilty to violation of 18 U.S.C. § 664, "Theft or Embezzlement from an Employee Plan." The trustee subsequently entered into a plea agreement with a restitution order.

As outlined in the OIG Strategic Plan for Calendar Years 2011 through 2016, the activities described in this report are consistent with our strategic goals, including:

- focusing efforts on areas of highest impact on PBGC performance;
- making recommendations that have impact; and
- performing timely, relevant, and high quality audits and investigations.

Much of the work completed during this period was either Congressionally requested or mandated by statute.

- PBGC Processing of Terminated United Airlines Pension Plans – This evaluation, performed in follow-up to an inquiry from Congressman George Miller, described serious errors and omissions in PBGC's determination of the fair market value of plan assets and the reliability of data used to calculate participants' benefits for four terminated United Airlines pension plans. The issues identified were systemic and led to our conclusion that $26 million expended by PBGC for substandard audit services over a six-year period was "funds to be put to better use."

- FY 2011 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 19th 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 three material weaknesses; (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.

During the time periods covered by this report, information technology (IT) continued to be a significant focus of our efforts.

- We issued the independent evaluation report required by OMB describing the overall results of our assessment of PBGC's information security programs and practices.
- We finalized the FY 2011 Vulnerability Assessment and Penetration Testing report, a restricted

disclosure report that detailed the results of our testing of the PBGC information security infrastructure.
- We worked with PBGC to establish a reporting framework through which PBGC would report every 90 days on progress in correcting or mitigating PBGC's critical and high risk vulnerabilities.
- We met frequently with the Chief Information Officer (CIO) and his staff to understand PBGC's progress toward completion of its corrective action plans to address the significant deficiencies reported in prior OIG audits.

These accomplishments are the direct result of work performed by the dedicated PBGC OIG professional staff and exemplify our commitment to ensuring PBGC's efficiency and effectiveness. Our success is also due to the continued support and interest of the PBGC Board of Directors, the Board Representatives, the PBGC Director and interested Committees and Members of Congress.

Rebecca Anne Batts

Rebecca Anne Batts
Inspector General

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Executive Summary

This consolidated Semiannual Report to Congress summarizes the activities and accomplishments of the Pension Benefit Guaranty Corporation Office of Inspector General for two periods: April 1, 2011 through September 30, 2011, and October 1, 2011 through March 31, 2012. During these reporting periods, our work addressed a wide range of issues with the Corporation:

- Our evaluation of PBGC's post-termination "audits" of the United Airlines pension plans – the plan asset, participant data and source document audits - found that PBGC's work was seriously flawed. Based on this work, as well as prior work related to the National Steel pension plans, we concluded that the $26 million paid to PBGC's audit services contractor for its work over a six-year period was "funds to be put to better use" (see pages 5-10).
- We issued the 19th consecutive unqualified opinion on PBGC's financial statements. For a third year, we reported an adverse opinion on internal control based on three material weaknesses: enterprise-wide security program planning and management; access controls and configuration management; and Benefits Administration and Payment Department operations. We issued a report on internal control to provide greater detail about these material weaknesses (see pages 12-17).
- We concluded that PBGC was generally in compliance with the Improper Payments Information Act (see page 18).
- We worked closely with the Office of the General Counsel, providing an independent voice in support of their efforts to protect PBGC's assets and improve its operations, including implementation of a new suspension and debarment process and expanded training on privacy awareness (see pages 18-19).
- Based on our information technology review work, we reported that security weaknesses continued to pose serious risks to PBGC (see pages 19-21).
- Our investigative activity resulted in a plan sponsor pleading guilty to a fiduciary breach in which he used plan money to purchase land for his own benefit in another business venture; the recovery of lump-sum pension money stolen by a participant's spouse; a finding that PBGC employees had fraudulently received more than $10,000 in parking subsidies; and PBGC's termination of an employee based on our report that the employee engaged in travel and purchase card fraud (see pages 22-26).
- With respect to PBGC's corrective actions to address outstanding audit recommendations, we noted that the Procurement Department made good progress in addressing some of the older audit recommendations. As a result, we were able to concur in the closure of 39 recommendations relating to contracting and procurements. As of March 31, 2012, a total of 195 recommendations were open, with the majority of outstanding recommendations addressing issues in the areas of benefit administration and of IT (see pages 26-29) .

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Introduction

The Pension Benefit Guaranty Corporation

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 1.5 million people in more than 4,300 failed plans. In its FY 2011 performance report, PBGC reported that: (1) every month, on average, it paid $458 million for 873,000 retirees; (2) it assumed responsibility for more than 57,000 additional workers and retirees in 134 failed plans; and (3) it is responsible for future payments to about 628,000 who have not yet retired.

PBGC pays benefits to 873,000 retirees every month.

As of the end of FY 2011, PBGC had an investment portfolio of more than $73 billion. The Corporation reports having sufficient liquidity to meet its obligations for a number of years, despite a cumulative deficit of $26.1 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.

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.

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

The Office of Inspector General

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

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

OIG work targets high risk areas.

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

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

Management Challenges

Over the past year, PBGC has continued to be faced with many of the long-standing issues that could threaten the Corporation's ability to effectively perform its mission. Our recent audit, evaluation, and investigative work addressed a wide range of concerns, including persistent weaknesses in PBGC information technology security. Our reports also described serious flaws in fundamental pension plan processes used by PBGC to value a terminated plan's assets and to validate the plan's participant data. PBGC accepted seriously deficient audit work performed by its own audit services contractor, resulting in our conclusion that the entire $26 million paid to the contractor was "funds to be put to better use."

PBGC leadership agrees that the issues we have reported are serious and must be corrected. Based on our continuing discussions with the PBGC Board and Board Representatives, the PBGC Director and members of the Executive Management Committee, we believe that the Corporation understands the need for correction of these serious issues.

OIG Assessment of PBGC's Post Termination Processing Actions

Audit work over the past 18 months found that PBGC's post-termination processes for pension plans – including their "audits" of plan assets, participant data and source documents – has produced unreliable results. This occurred because PBGC's contractor produced work with errors and omissions and the work was not properly reviewed and overseen by the Federal employees charged with responsibility for post-termination processing.

PBGC Processing of Terminated United Airlines Pension Plans Was Seriously Deficient
EVAL-2012-05/PA-10-72
(http://oig.pbgc.gov/audit/2012/pdf/PA-10-72-1.pdf)

In response to a request from then Chairman George Miller of the House Committee on Education and Labor, we determined that PBGC failed to protect the interests of United Airlines workers and retirees when it contracted for and accepted a series of poor quality and mistake-ridden audits. Serious errors and omissions plagued PBGC's determination of (1) the fair market value of plan assets and (2) the reliability of data used to calculate participants' benefits for four terminated United Airlines pension plans. PBGC did not follow its own established protocols or ensure compliance with applicable professional standards for audits of terminated United Airlines pension plans. Neither the PBGC leadership responsible for providing oversight nor the employees of Integrated Management Resources Group, Inc. (IMRG), a PBGC contractor, demonstrated the requisite skills and understanding to perform the audits. As a result, neither PBGC nor the plan participants had reasonable assurance with regard to the accuracy of retirement benefits. Based on the systemic nature of

PBGC's audit contractor produced seriously deficient work.

the issues identified, we concluded that the $26 million, expended over a six-year period by PBGC on its audit services contract with IMRG, were "funds to be put to better use" – that is, funds would have been better spent if work had been performed by a firm that could have performed the work in accordance with government auditing standards as required by the contract.

In accordance with the Employee Retirement Income Security Act of 1974 (ERISA), as amended, the value of a plan's assets is used in calculating retirement benefits, given that a participant's benefit is the greater of the guaranteed benefit or the amount funded by plan assets. For some plans, including the United Airlines' plans, increases in the calculated value of plan assets at the date of plan termination may result in increased benefits for some plan participants. However, for other plans, even relatively large increases in the value of plan assets may not translate into additional benefits for retirees. PBGC regulations call for plan assets to be valued "at their fair market value, based on the method of valuation that most accurately reflects such fair market value."

Contractor "Audits" Were Seriously Flawed

PBGC's workpapers contained obvious errors and omissions.

PBGC's contract with IMRG required the firm to conduct a series of audits of terminated pension plans consistent with Government Auditing Standards. For the four terminated UAL plans, IMRG produced 14 reports, including plan asset, participant data, source document and electronic source document audits. Each of these reports contained significant errors and omissions, and reached conclusions unsupported by the workpapers or underlying analyses.

Plan Asset Audits. PBGC's contractor, IMRG, completed the initial four plan asset audits intended to establish the fair market value of United Airlines plan assets at the dates of plan termination. PBGC employees signed the four reports, indicating their acceptance of the reports and the supporting workpapers. However, our review showed that IMRG's reports and workpapers contained obvious errors and omissions and faulty reasoning, as well as a number of critical unsupported conclusions that were not identified by PBGC reviewers. For example:

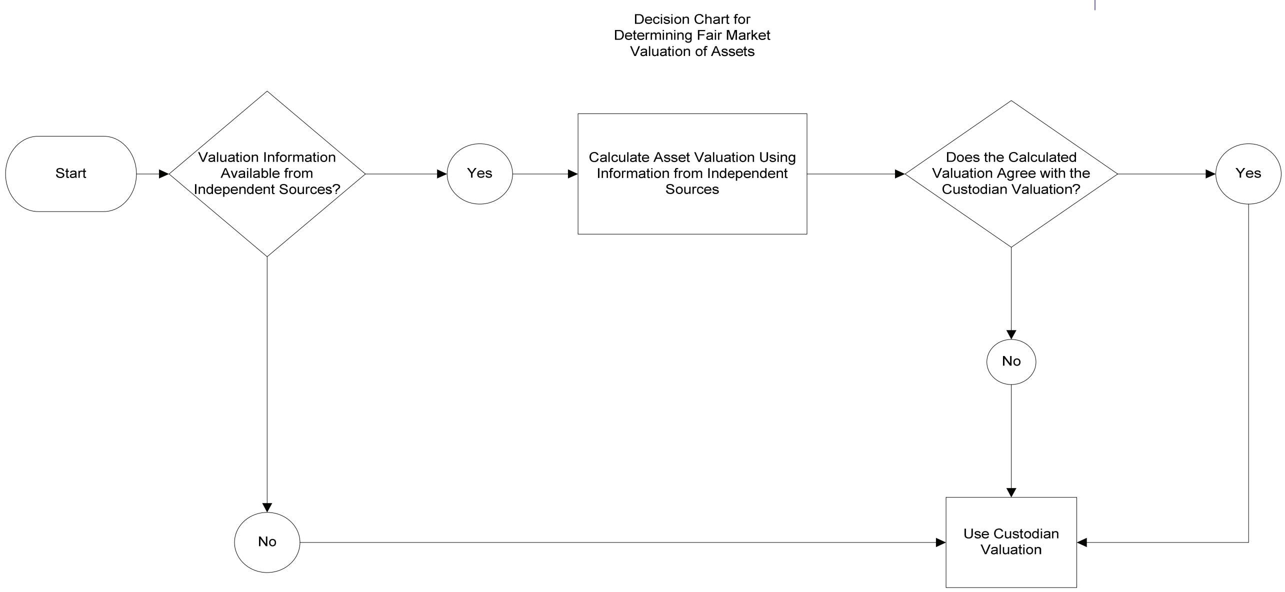
- In every instance in which IMRG's substantive audit tests to validate the fair market value of an asset produced a result different from the UAL plans' custodian bank (trustee), IMRG simply accepted the trustee's valuation and did not conduct further work to identify the reasons for the difference. Over and over, we identified instances in which PBGC audit services contractor concluded that the error rate was high (e.g., 100 percent), while simultaneously concluding that the values in the statements were in agreement with their findings.

- IMRG auditors did not gather sufficient evidence or properly calculate interest earned on securities owned by the UAL master trust. One instance cited in our report showed a basic lack of understanding of how to calculate bond interest in that IMRG incorrectly used the market value of the bond instead of the face value in the calculation of accrued interest.

- There was no evidence that either PBGC or IMRG performed required audit procedures to identify fraud waste, or abuse. That is, there were no procedures performed to: (1) ensure that all plan assets had been located or to identify and value additional assets, if any, beyond those listed in the custodian bank statements; or to (2) assess the legitimacy of asset transfers and transactions.

- Though the assets of the four UAL plans were held in a commingled master trust, there was no work to ensure that the asset allocations among the four plans were reliable or to validate the source and use of the allocation percentages.

The following flow chart demonstrates how the methodology used by PBGC and IMRG in the UAL plan asset audits resulted in reliance on trustee values, without regard to whether those values were supported or correct. As shown below, there were no circumstances under which IMRG would not accept the trustee's valuation.



The failure to independently validate asset values affected all four of the United Airlines plan asset audits.

Participant data audits and source document audits were also unreliable.

Other Post Termination Audits. Participant data audits are intended (in part) to verify participants' records to ensure the reliability of data obtained to calculate participants' benefits. IMRG issued five separate participant data audit reports relating to the United Airlines plans, one for each of the four plans as well as a comprehensive participant data audit report to address United Airlines participant data overall. Additionally, PBGC paid the audit contractor for work on four source document audits and an electronic source document audit, all related to one or more of the four United Airlines pension plans. Our review showed that each of these ten audit reports contained obvious errors, omissions, and failures of logic. For four of the five participant data audit reports, major factual errors further limited the usefulness and reliability of the reports.

Finally, we determined that PBGC did not obtain manual source records in accordance with established PBGC protocols, and drew conclusions in the various participant data audits based on a sub-sample of data that was not representative of participant records. That is, PBGC inappropriately drew conclusions about data for United Airlines participants based on a review of files for retirees and without analyzing manual source documentation for active and separated vested participants. Active and separated vested participants comprise more than 85,000 participants – over two-thirds of the total. The impact of the scope limitation that arose from UAL's purported denial of access to certain source documents was referenced in four of the five participant data audits and in three of five source document audits.

Thus, we concluded that neither PBGC nor its contractor IMRG exercised due professional care in the conduct of the initial four UAL plan asset audits, the participant data audits, or the source document audits. 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 participants had reasonable assurance that plan assets were identified, correctly valued, and properly allocated to the individual United Airlines pension plans, or that critical data was obtained from UAL.

PBGC's Re-Valuation of UAL Plan Assets

PBGC's re-valuation of plan assets also contained errors and omissions.

When the OIG brought the errors and omissions in PBGC's audits of United Airlines plans to the attention of the Corporation, PBGC contracted with a CPA firm to perform a re-valuation of UAL plan assets. However, PBGC agreed to the CPA firm's use of a flawed methodology that was inconsistent with federal regulations requiring plan assets be valued based on the method that most accurately reflects fair market value at the date of plan termination. Further, we found that PBGC employees had not performed adequate oversight of the 2011 re-valuation work performed by the CPA, nor had PBGC ensured an effective review of the CPA firm's reports and supporting workpapers. Some errors and omissions could have been identified and corrected if a more critical and professional review had been made of the reports and supporting workpapers. As a result of PBGC's lax oversight, in April 2011, PBGC accepted and paid for four additional UAL plan asset valuation reports containing errors in fact and in logic that fell short of compliance with key contract terms and applicable federal regulations. That is, the four reports that were intended to replace the seriously flawed plan asset audits performed by IMRG were also themselves significantly flawed.

After we brought examples of the errors and omissions included in the re-valuation work to PBGC's attention, the Corporation issued a request for proposal to the CPA firm, asking that they provide a plan for re-work and a proposed cost for correcting some of the errors and shortcomings that OIG had identified. The CPA firm provided a plan and a bid for the additional work and PBGC advised OIG that a new call order would be issued. However, after OIG explained that the additional work called for in the new contract vehicle would still not provide necessary assurance about key elements needed to ensure that plan assets are valued at fair market value, as required by PBGC's regulations, PBGC decided to hold the CPA firm accountable for correcting identified errors and omissions.

PBGC booked adjusting entries to its financial records based on the results of these flawed reports. After OIG expressed concerns with the validity of the April 2011 CPA firm reports, PBGC reversed the entries in its financial records, pending PBGC leadership's decision with regard to appropriate asset valuations.

As of the date of our report, the CPA firm had made no changes to the April 2011 plan asset valuation reports, although they reported having made modifications and improvements to the supporting workpapers. In response to our work, PBGC reports that it implemented a more detailed and in-depth review procedure for the re-valuations of UAL and National Steel plan assets.

Systemic Errors and Omissions in Audits of Terminated Pension Plans

In our March 30, 2011, Evaluation Report No. 2011-10/PA-09-66-1, entitled *PBGC's Plan Asset Audit of National Steel Pension Plans Was Seriously Flawed*, we identified omissions and errors related to the plan asset audit for National Steel plans that were similar to the problems we identified with the United Airlines plan asset audit. Both National Steel and United Airlines plan asset work was completed by the same audit services contractor, IMRG. Further, we noted that PBGC also used this same contractor to perform hundreds of plan asset and participant data audits during the last decade. While PBGC does not have a definitive listing showing the specific plan terminations for which IMRG provided audit services, our review of available evidence showed that IMRG had worked on at least eight of the ten largest pension plan terminations in PBGC's history.

PBGC expended $26 million on audits that did not meet professional standards.

PBGC's own reviews provided an indication of problems with PBGC's plan asset audits and with IMRG, its audit contractor. A PBGC-commissioned assessment of its trusteeship of large defined benefit plans completed by Hewitt Associates in September of 2007 concluded, in part, that Benefits Administration and Payment Department (BAPD) auditors (both Federal and contract employees) lacked the audit skills necessary to adequately perform their roles. Also, an internal PBGC review of plan asset audits, completed late in 2010 after OIG's initial briefings on United Airlines issues, identified errors and omissions in the audits tested throughout BAPD.

Based on our work – a prior evaluation of the plan asset audit for National Steel; our evaluation of four plan asset audits, five participant data audits, four source document audits, and an electronic source document audit for United Airlines; and our review of the practices and procedures in place at PBGC's audit contractor — we concluded that none of the audits performed by IMRG during the course of the audit services contract had been performed "consistent with the Government Auditing Standards" as required by IMRG's contract with PBGC. In addition to the shortcomings in its audit reports, we noted that IMRG did not have the infrastructure in place necessary for its audit work to meet the minimum applicable standards. That is, IMRG did not have an effective quality control system, an external peer review of compliance with its system of quality controls, or documentation that its audit staff met minimum requirements for continuing professional education. As a result of IMRG's failure to provide work consistent with government auditing standards, as required in its contract with PBGC, we concluded that the $26 million expended by PBGC over a six year period on IMRG's audit services were "funds to be put to better use." That is, using PBGC's funds on professional audit services in compliance with applicable standards would have been a better use than expenditure of funds on audits that fell far short of those standards.

Recommendations and PBGC's Response

Based on our work, we made 15 recommendations for improvements in PBGC's processes and to correct specific errors and omissions in the UAL plan asset audit work. Our recommendations addressed the need for PBGC to:

- Ensure its policies, procedures and protocols consistently require plan assets to be valued based on the method that most accurately reflects fair market value as of the date of plan termination.

- For valuations of very large plans, plans with significant valuation challenges, and plans where error rates exceed allowable thresholds, ensure that results are briefed to a PBGC senior leader who understands plan asset valuation issues and that any deviations from protocols are documented and concurred in by the senior leader.

- Clarify current procedures or develop new ones to require documentation of the resolution of variances, to validate allocation percentages when assets are held in a master trust, to provide guidance for instances where a plan sponsor denies access to records, and to ensure the validity of conclusions based on sampling practices.

- Ensure that PBGC employees and contractors who conduct post-termination activities – e.g., plan asset valuations and participant data reviews – have the requisite knowledge, skills and abilities to perform the work competently. That is, PBGC should require continuing professional education and ensure that some team leaders and managers to have enhanced qualifications such as a CPA license or audit experience outside BAPD.

- Develop a quality event tracking tool.

- Elevate the post-termination quality review function to promote objectivity and encourage independence of thought and action.

PBGC should take action to improve post-termination processes.

- For the UAL plan asset re-valuation, value assets at fair market value and document efforts to obtain alternate value sources if the trustee's value is determined to be the only evidence of fair market value; consult with industry experts on how to obtain sufficient, competent, and reliable evidence about the accuracy of allocation percentages; and carefully review the contractor's workpapers and require necessary adjustments.

- As part of PBGC's planned strategic review, develop and implement processes to ensure post-termination audits are done in accordance with established standards and with an appropriate level of assurance.

PBGC generally agreed with the report's findings and recommendations, however, for six of the 15 recommendations, PBGC's proposed responses did not provide sufficient information about what it would do for OIG to determine whether we could agree with PBGC's proposed management decision. Since the issuance of our report, PBGC has provided additional information that allows us to concur in their planned corrective actions for five of the six remaining recommendations. We continue to follow-up with PBGC management regarding an appropriate plan for implementation of the final recommendation.

PBGC Action in Response to Findings of Fundamental Issues in Post-Termination Plan Processes

PBGC should be acknowledged for beginning to take action to address the systemic issues that contributed to the serious errors and omissions in PBGC's audits of terminated pension plans. When we brought the errors and omissions in PBGC's audits of both the National Steel and United Airlines pension plans to the attention of the Corporation, the PBGC Director expressed his commitment to correcting the specific errors for these plans' participants, as well as addressing the systemic issues. As PBGC wrote in its response to the UAL report: "If people have been underpaid, we will correct the error and pay the overdue amount with interest and an apology. If participants have been overpaid, the payments will be adjusted gradually, without either interest or penalty."

PBGC Director commits to corrective action.

PBGC leadership initiated a series of efforts at corrective action:

- The Corporation awarded a contract to multiple Certified Public Accounting (CPA) firms for re-valuations of plan asset audits, with those of the National Steel and UAL plans being among the first to be re-done. (We note that this engagement will provide less assurance than a properly completed audit performed consistent with Government Auditing Standards—the engagement that PBGC originally contracted and paid for).

- PBGC contracted with a major consulting firm for a comprehensive analysis of the appropriateness of BAPD's current organizational structure and operations to meet its mission challenges. The analysis proposed alternatives for an organizational structure that is better aligned with BAPD mission responsibilities.

- PBGC meets regularly with OIG, both at the leadership and staff levels, to keep OIG apprised of progress of actions and decisions made.

Our review of PBGC's re-valuation of UAL plan assets showed it had not been effective in providing a reasonable level of assurance about the value of plan assets. The results of PBGC's own review were consistent with this determination. Consequently, in December 2011, PBGC issued yet another call order under its blanket purchase agreement contract to have the plan asset valuation re-performed. This call order was issued to a different CPA firm (now the third contractor to perform the UAL asset valuation) in February 2012, with expected reports and supporting workpapers to be completed this spring. PBGC's review is to be completed soon thereafter so that final asset values can be provided to the actuaries for the necessary calculation of benefits work between April and July 2012. PBGC expects to communicate final benefit determinations to UAL participants in August 2012. As of March 31, 2012, PBGC's review of the National Steel re-valuation review had been completed, decisions had been made about additional work to be done by PBGC and the CPA firm including the need for clarified and better supported workpapers, and expectations communicated to the CPA firm.

Initiated in April 2011, the first phase of PBGC's strategic review has been completed and includes a current-state assessment report addressing many of the factors that contributed to the problems described in OIG's National Steel and United Airlines evaluation reports, including workforce, contracting, business processes, and quality control practices. The second phase, also complete, includes options for a future state operating model. Both reports were submitted to PBGC in October 2011. The Deputy Director of Operations is charged with overseeing this strategic review, with decisions regarding changes in process, personnel, and organization being made by the Director. As of March 31, 2012, certain high-level decisions had been made about changes to the organization, including establishing:

- a specialized unit for asset valuation issues;
- a specialized unit for data acquisition and management; and
- an independent quality management unit.

PBGC reports that details regarding processes and personnel are still in development.

PBGC's financial statements are "presented fairly."

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

PBGC received its 19th consecutive unqualified, or "clean," opinion on its financial statements for FY 2011. However, it fell short in its internal controls, receiving its third consecutive adverse opinion on internal control.

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2011 and 2010 Financial Statements
AUD-2012-1/FA-11-82-1
(http://oig.pbgc.gov/audit/2012/pdf/FA-11-82-1.pdf)

Our audit of PBGC's Single-Employer and Multiemployer Program Funds concluded that the financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In this unqualified 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, 2011, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of $23.27 billion and $2.77 billion, respectively. 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 $227 billion and $23 billion, respectively. For the Single-Employer Program, PBGC estimated this liability using data for fiscal years ending in calendar year 2010 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, 2011. As a result the exposure to loss for the Single-Employer Program as of September 30, 2011 could be substantially different from the estimate reported in PBGC's financial statements.

In FY 2011, PBGC reported that its deficit position for the Multiemployer Program had almost doubled from $1.4 billion (as of 9/30/10) to $2.77 billion, and its exposure to plans where termination is reasonably possible increased from $20 billion (as of 9/30/10) to $23 billion. This significant growth in PBGC's liability for multiemployer plans reflects PBGC's expectation that increasing numbers of multiemployer plans will become insolvent, and PBGC will pay non-recoverable financial assistance to continue pension benefits to those plans' participants.

The financial statements audit was conducted by Clifton Gunderson LLP under contract with our office.

Adverse Opinion on Internal Control

For the third 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, 2011. A new material weakness was reported this year in the operations of the Benefits Administration and Payment Department (BAPD). Serious internal control weaknesses in the BAPD's operations were identified by the OIG and others during FY 2011. These significant control weaknesses introduced additional risks to PBGC. Specific deficiencies included errors in valuation of plan assets, lack of documentation supporting benefit payments, errors in benefit calculations, and poor oversight of the Pension and Lump Sum System (PLUS). BAPD's weak internal controls created an environment that could lead to fraud, waste, and abuse.

PBGC did not maintain effective internal control.

The material weaknesses described below were serious enough to result in the expression of an adverse opinion on internal control. Three material weaknesses were reported, including deficiencies in PBGC's (1) entity-wide security program planning and management, (2) access controls and configuration management, and (3) Benefits Administration and Payment Department operations. We also reported one significant deficiency in integrated financial management systems.

Since the time of the first adverse internal control opinion in the FY 2009 financial statements audit report, PBGC has made only minimal progress toward correction of the reported issues. Though it has initiated efforts in the reorganization and improvement of its security planning and management through the design and implementation of a more coherent strategy to manage its information systems, these efforts are far from complete.

Compliance with Laws and Regulations

Tests of PBGC's compliance with selected laws and regulations disclosed an instance of reportable non-compliance in which PBGC valued the plan assets of terminated pension plans and failed to apply the regulation in 29 CFR § 4044.41, Subpart B, requiring that "Plan assets shall be valued at their fair market value, based on the method of valuation that most accurately reflects such fair market value." Because the objective of the audit was not to provide an opinion on overall compliance with laws and regulations, no such opinion was expressed.

Report on Internal Control Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2011 and 2010 Financial Statements Audit AUD-2012-2/FA-11-82-2 (http://oig.pbgc.gov/audit/2012/pdf/FA-11-82-2.pdf)

Three material weaknesses affected PBGC.

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 material weaknesses and 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 weaknesses.

The internal control report provided details about material weaknesses in the following areas:

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

We also reported that the lack of an integrated financial management system was considered to be a significant deficiency.

Material Weaknesses and Significant Deficiency

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 2011, PBGC continued the implementation of a series of multi-year Corrective Active Plans (CAPs) to address fundamental weaknesses in its entity-wide security program planning and management. 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 are not scheduled for completion until 2015, we have noted the exigent need for interim corrective action to protect PBGC's information and systems.

One long-standing issue is PBGC's failure to have an effective Certification & Accreditation (now Assessment and Authorization (A&A)) program to provide security assurance about its IT systems. During FY 2011, PBGC began the implementation of a more rigorous and thorough A&A process. Through this process, PBGC identified fundamental security control weaknesses for its general support systems, many of which were reported in prior year's audits. While this was an important step in the planning process, these security control weaknesses remained unresolved and PBGC's efforts lacked meaningful incremental progress. PBGC reported that they are in the process of performing A&As on major applications. The slow rate of progress has introduced additional risks including technological obsolescence, inability to execute corrective actions, breakdown in communications and poor monitoring.

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.

PBGC's IT environment lacked a cohesive structure.

The material weakness in PBGC's access and configuration management controls did not provide PBGC with sufficient assurance that financial information and financial assets were adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction. Access controls should be in place to consistently limit access, detect inappropriate access to computer resources (data, equipment, and facilities), and 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.

Benefits Administration and Payment Department Operations – We reported that PBGC had serious internal control weaknesses in this area that introduced additional risks to PBGC. Specific deficiencies included errors in valuation of plan assets as reported by the OIG, lack of documentation supporting benefit payments, errors in benefit calculations, and poor oversight of the Pension and Lump Sum System (PLUS) as described in the financial statement audit. PBGC is currently undergoing a strategic review that may address organizational structure and operational issues. PBGC has committed to developing a plan in FY 2012 that will address the deficiencies noted. This plan is intended to focus on fundamental issues such as internal controls, processes, contractor oversight, and training and staff competencies.

Many of the weaknesses identified stemmed from poor management of contractors. Effective oversight requires good communications with contractors on their responsibilities for contract compliance. Contracted services are an extension of PBGC's internal controls. PBGC's management did not always consider the exposure and risk that contractors introduce into its environment and how to manage that risk.

PBGC did not properly review, assess, and monitor contractor's controls related to contracted services.

During FY 2011 we noted deficiencies in the oversight of contracted reviews of asset values at the date of plan termination. These deficiencies were caused by a failure to establish and apply a quality review process to verify and validate the satisfactory completion of contracted plan asset valuation audits, and a failure to establish a detailed process to ensure the consistent application of a methodology to determine the fair market value of plan asset at date of plan termination as required by regulation.

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 — a condition that led to a significant deficiency.

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

Work remains to integrate PBGC's financial management system.

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. PBGC has made some progress in this fiscal year, including: (1) work on its Enterprise Target Architecture , which provides the road map for all PBGC system development and integration, including financial management system integration, and (2) implementation of certain interface enhancements for the Consolidated Financial System (CFS) – e.g., payroll interface modernization, and new interfaces for procurement, travel, and invoice automation – to provide additional automated capabilities for CFS and reduce the amount of manual data inputs for certain transactions.

Major work remains to be completed before PBGC has fully integrated financial management capabilities.

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2011 and 2010 Special-Purpose Financial Statements AUD-2012-4/FA-11-82-4 (http://oig.pbgc.gov/audit/2012/pdf/FA-11-82-4.pdf)

As part of the annual financial statements audit, Clifton Gunderson also audited the PBGC Fiscal Year 2011 and 2010 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, 2011 and 2010, and its net costs and changes in net position for the years then ended and that the presentation was consistent with requirements of the U.S. Department of the Treasury.

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

PBGC prepares special-purpose financial statements to provide financial information to the Treasury and Government Accountability Office (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 2011 Financial Statements Audit Management Letter AUD-2012-6/FA-11-82-6

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-2012-2/FA-11-82-2), discussed above. The management letter summarized findings that resulted in 28 new recommendations (one of which was reclassified from the FY 2011 Internal Control Report), and reported on the status of 34 recommendations that remain open from prior years' management letter reports.

While these management letter findings and recommendations were not material control issues and were not material in dollar value 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 and new recommendations address areas such as:

- The ability of contractor personnel to edit data for their relatives in some PBGC IT systems;
- Errors in final benefit statements, resulting in incorrect lump sum benefit payment determinations;
- An incorrect interest rate used in the actuarial calculation of balance sheet liabilities; and
- Errors in interpreting pension plan provisions, with resulting incorrect benefit calculations.

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

Statutory Review of PBGC's Compliance with the Implementation of the Improper Payments Information Act
EVAL-2012-8 /PA-11-85
(http://oig.pbgc.gov/audit/2012/pdf/PA-11-85.pdf)

The Improper Payments Elimination and Recovery Act (IPERA) amended the Improper Payments Information Act (IPIA) and required us to evaluate PBGC's compliance with IPIA requirements. We found that PBGC has instituted a systematic method to review its programs and activities for improper payments and has generally complied with IPIA and the implementing requirements issued by the Office of Management and Budget (OMB).

Although we concluded that PBGC had generally met the specific compliance requirements established by OMB, we noted that PBGC's methodology for estimating improper payments had certain analytical flaws. Our observations of issues that should be addressed by PBGC in future efforts include:

PBGC complied with Improper Payments Information Act.

- In its Annual Report, PBGC incorrectly reported the net of overpayments and underpayments for improper benefit payments and for improper payments to contractors. While OMB guidance does not forbid reporting net amounts, the guidance does require reporting the gross estimate, numbers that PBGC did not include in its annual report. According to PBGC staff, this occurred because they considered the net to be more relevant from a collection and recovery perspective.

- In future years, PBGC should attempt to attain improved precision in its statistical sample design. While each of the statistical estimates reported in PBGC's Annual Report met the precision required by OMB, other statistical estimates related to documentation issues in benefit payments and reported in PBGC's internal report were not sufficiently precise. This occurred because PBGC and its contractor assumed an overall error rate in planning for the statistical sample that was lower than the actual rate determined through PBGC's testing.

Improving PBGC Operations

As part of our effort to improve PBGC's operations, we supported PBGC's Office of General Counsel in the implementation of important initiatives.

Protecting Privacy. Privacy stewardship and governance are critical elements of PBGC's operations; the absence of an effective privacy program can lead to the erosion of privacy protections and the loss of the public's trust. Protecting personally identifiable information (PII) is an integral part of PBGC's business operations and should be a core consideration for every PBGC department, employee, and contractor. The OIG and PBGC have engaged in joint efforts to bring privacy protection to the forefront at PBGC. As reported in our prior semiannual report, PBGC is striving to have a model privacy program, conducted under the auspices of the Office of General Counsel. Beginning in the spring of 2011, OGC initiated "Privacy Week," a program with a series of speakers and events highlighting various aspects of privacy protection. OIG participated by arranging for an expert speaker from the Federal Communications Commission OIG to present and lead a discussion about identify theft.

New Suspension and Debarment Program. OGC took aggressive steps to close a long-standing gap in procurement protections by creating a suspension and debarment program. In developing this new program, OGC recognized OIG's important role in suspension and debarment investigations and provided their draft program for OIG review to ensure appropriate description of the OIG's activities when it receives referrals or allegations of procurement misconduct. Upon issuance of the policy and procedures, we again worked together to draft an article for the employee newsletter explaining the new program; we also collaborated on training that will soon be provided to those in PBGC with procurement responsibilities.

PBGC implemented a suspension and debarment program.

Liaison. OIG and OGC senior leaders meet at least quarterly to discuss matters of concern to PBGC. In addition, the General Counsel has frequently served as PBGC's liaison with our office to ensure there is clarity about the issues OIG has raised and to provide guidance to PBGC management on appropriate corrective actions and responses. This involvement has benefitted agency operations and resulted in PBGC's corrective actions, leading to resolution and closure of audit recommendations.

Information Technology Issues Caused Additional Risks

As reported in our Financial Statement Audit, PBGC's slow progress in mitigating systemic IT security control weaknesses posed an increasing and substantial risk to PBGC's ability to carry out its mission during FY 2011. The extended time required and the lack of meaningful progress in PBGC's multi-year approach to correct previously reported IT deficiencies, at the root cause level, introduced additional risks. These include technological obsolescence, inability to execute corrective actions, breakdown in communications and poor monitoring.

Throughout the year PBGC has provided OIG with updates on its implementation of the agency's five-year Corrective Action Plan (CAP). The CAP is intended to address IT issues at the root cause level and correct the material weaknesses in entity-wide security program planning and management, access controls and configuration management reported in the financial statement audit. We had previously expressed concern that fundamental IT security weaknesses could worsen while the agency implements the multi-year CAP, posing a greater threat to its IT environment. Certain aspects of PBGC's IT have indeed worsened while the CAP is being implemented, as noted in our recent Vulnerability and Penetration testing work (see below).

During FY 2011, PBGC completed the Assessment and Authorization for the agency's General Support Systems, an important milestone in the overall CAP. In FY 2012, PBGC plans to resolve more than half of the outstanding audit recommendations related to Access Controls and Security Program Planning and Management. We look forward to receiving and analyzing information about the actions PBGC has taken to improve IT security and operations.

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

The Federal Information Security Management Act (FISMA) requires federal entities to report annually to OMB the state of their information security. FISMA also requires Inspectors General to conduct independent annual evaluations of agencies' security programs and practices and to report the results to OMB. In conjunction with the financial statement audit, we contracted with 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.

We reported that PBGC's systemic security control weaknesses continued to pose a substantial and increased risk to PBGC's ability to carry out its mission during FY 2011. The Corporation continued its implementation of an enterprise multi-year CAP to address IT security issues at the root cause level. The extended time and the lack of meaningful progress in PBGC's corrective action plan to correct previously reported deficiencies introduced additional risks. PBGC management has recognized that these weaknesses will continue to pose a threat to its IT environment while corrective actions are being implemented. Our primary concern, as expressed in our FISMA report, is whether PBGC will be able to implement interim corrective actions in a way that will ensure that fundamental security weaknesses do not worsen as the CAP is being implemented.

Fiscal Year 2011Vulnerability Assessment and Penetration Testing Report
EVAL 2012-7/ FA 11-82-5
(http://oig.pbgc.gov/audit/2012/pdf/FA-11-82-5.pdf)

Systemic IT control weaknesses pose a risk to PBGC.

PBGC has committed to reducing the number of vulnerabilities on its networks. The Corporation has acknowledged that attention is needed to mitigate the vulnerabilities identified by OIG in our assessment of PBGC's computer systems to find weaknesses that may allow employees or outsiders to cause harm to, and/or impact PBGC's business processes and information. As part of that review, conducted as part of the financial statements audit engagement, we found major issues of concern in patch management, access controls, and configuration management; many of the vulnerabilities identified were repeated from prior years. We determined that PBGC's information security has not improved since the prior year and that PBGC's systems are exposed to increased risks.

Critical vulnerabilities are defined as flaws that could be easily exploited by a remote attacker with no password (i.e. unauthenticated) and lead to system compromise without requiring user interaction. High severity vulnerabilities are flaws that can easily compromise the confidentiality, integrity or availability of resources. This year's testing disclosed many more high risk vulnerabilities than in prior years. We found that urgent management attention and commitment will be needed to mitigate existing vulnerabilities. We recommended that PBGC leadership:

- Implement an effective continuous monitoring program;
- Apply timely patches and updates;
- Strengthen passwords; and
- Take action to avoid potential network outages.

To PBGC's credit, in response to our most recent evaluation the Chief Information Officer has created a team to address reported weaknesses and has committed to reporting on the mitigation of critical and high vulnerabilities within 90 days. Additionally, PBGC has obtained contract support to perform monthly scans. OIG will follow-up on the proactive steps to be taken by PBGC until the Corporation has demonstrated all vulnerabilities have been effectively eliminated or mitigated.

PBGC Management Decision Needed for Recommendations in OIG's Audit Report on PBGC's Preparedness for a Potential Influx of Pension Plans

PBGC has not acted on key OIG recommendations.

PBGC has not yet implemented or developed a plan to implement OIG recommendations intended to enhance PBGC's ability to meet its mission in the eventuality of a greatly increased workload. In November 2010, in response to a Congressional request, we issued an evaluation report describing the need for PBGC to enhance its ability to deal with a potential influx of pension plans. We reported on PBGC's need to take a number of key corrective actions, to include:

- Development of a strategic plan and associated tactics for ensuring that the Corporation can continue to meet its mission under a range of possible workload scenarios;
- Ensuring that the Corporation's planning efforts reflect the importance of contractors to PBGC; and
- Ensuring the workability of plans and making necessary refinements to position PBGC for readiness to address an increased workload.

The Chief Operating Officer responded to our report, noting PBGC's conclusion that the risk of large influx of plans is lower than in the prior year and that the resources needed to address the report's recommendations would be better used in other, higher priority, areas. PBGC then proposed to take several specific steps as an alternative to OIG's recommended corrective actions, including the development of a Large Influx Working Group (LIWG) Planning Document as a basis to address OIG's recommendations. According to PBGC's 2010 response, the role of the LIWG would include:

- Handling situations, such as industry failure, in addition to individual large plans;
- Defining triggers that would initiate the LIWG to plan for different circumstances;
- Identifying dependencies and sequencing in planning;
- Ensuring support functions such as Human Resources, Facilities, Information Technology and Procurement have sufficient information and involvement; and
- Ensuring contract ceilings and scopes are specifically considered in approaches.

OIG responded that the alternatives proposed by PBGC were not sufficiently detailed to allow us to determine whether they would lead to effective corrective actions. Although our report requested that PBGC provide us, within 90 days, a status update and anticipated timeframes for the development of the proposed LIWG planning document, the 90 day update was not provided and PBGC did not take the actions promised in its response to our report.

PBGC commits to considering workload influx.

We followed up numerous times with PBGC management on this report. In January 2012, PBGC senior management informed OIG that action had not been taken to address the report's findings and recommendations because the agency's limited resources had been directed toward other issues raised by OIG.

PBGC agrees there is value in considering the workload influx from a broader strategic perspective and has tasked a Senior Level manager to pioneer PBGC's efforts, including coordinating across Departments. PBGC reported an intention to complete the design and initial documentation of the strategic process that the Corporation will use to prepare for a potential workload influx. PBGC also intends to direct departmental representatives to develop tactical plans in support of the strategic plan. The Corporation plans to test its strategic and tactical plans by conducting a tabletop exercise in the summer of 2012. The overall purpose of the exercise will be to provide a forum for management to walk through a specific scenario of workload influx. Following the tabletop exercise, PBGC has stated that management may refine the strategic and tactical plans if needed.

In discussing PBGC's long overdue response, the PBGC Director expressed a renewed sense of urgency and informed us of his personal attention to the report. Nevertheless, as of the date of issuance for this combined Semiannual Report, we have not received information about PBGC's revised plan to address key recommendations. We look forward to receiving PBGC's written plan to evaluate whether we can concur in PBGC's management decision on the findings and recommendations.

Investigations

The OIG is responsible for the prevention and detection of fraud, waste, abuse and mismanagement through investigations. OIG special agents investigate allegations of external fraud by pension plan sponsors, participants, and third parties who divert pension assets or benefits, as well as internal fraudulent activities or misconduct of Federal employees and contractors.

Fiduciary Breach Investigation Results in Guilty Plea and Restitution Order

Based upon information received from the Department of Labor's Employee Benefits Security Administration (EBSA), the OIG initiated an investigation of a plan sponsor's fiduciary breach in directing pension plan assets to purchase property to benefit a business venture. Our investigation resulted in Edward Scott Emerson, sole trustee of the Mueller Electric Company Employees Pension Plan (Plan), being charged in the U.S. District Court of Ohio, Northern District with converting pension plan assets to his personal use.

On February 22, 2012, Emerson pled guilty to violating 18 U.S.C. § 664, "Theft or Embezzlement from an Employee Benefit Plan" and entered into a plea agreement with a restitution order in an amount to be determined by the judge. Our investigation revealed that Emerson, as the sole trustee, had directed the Plan's purchase of two parcels of property for approximately $310,000 in June 2006. This property consisted of two vacant lots Emerson needed for a business venture unrelated to Mueller Electric or the Plan. In Sandusky, Ohio, Emerson was building a hotel and resort water park complex, Maui Sands. However, Emerson could not obtain operation permits for Maui Sands as the project did not have sufficient parking space.

Sign designating parking for Maui Sands Indoor Waterpark Resort

Emerson used $310,000 of the Plan's assets to purchase two parcels to build parking lots in order meet the zoning requirements for the Maui Sands parking. The purchase contract also provided that the seller had the right to re-purchase the property for only $175,000 if the Maui Sands water park venture did not go forward within five years.


Parking lot purchased with Mueller Electric Pension Plan Assets

Plan Assets were used for a waterpark parking lot. Plan fiduciary pled guilty to misusing plan assets.

Under ERISA, all assets of an employee benefit plan are to be held in trust by one or more trustees, and a plan trustee must use plan assets solely for the benefit of the plan participants. Moreover, it is a prohibited transaction, subject to both civil and criminal penalties, for a plan trustee to engage in any activity that is not an arm's length transaction - that is, the trustee may not, directly or indirectly, engage in a transaction that benefits himself or another party-in-interest such as a relative or a company he controls.


Maui Sands Water Park, a venture unrelated to the Mueller Electric

Emerson's abuse of the plan continued through September 2009, when after Maui Sands closed and a receiver was appointed for

The Plan trustee diverted pension funds at a time when assets covered only half of promised benefits.

both Maui Sands and Mueller Electric, Emerson concocted a plan to sell the parcels to a relative at a reduced price in order to maintain control of the parcels and keep them out of the hands of the court appointed receivers. Emerson hoped to regain control of Maul Sands or dictate its operations by controlling a key parcel. As a result of Emerson's scheme, the Plan sold the parcels to Emerson's relative at a loss to the Plan of approximately $130,000 immediately prior to the termination of the Plan. In addition, Emerson caused the Plan to make a mortgage note of $160,000 to the relative in order to finance the sale.

When making its termination decision effective July 2009, PBGC determined that the Plan's liability for guaranteed pension benefits to 168 participants was $6.1 million and the Plan only had $3.4 million in assets. At a time when Plan assets covered about half of the promised benefits to participants, Emerson sold a Plan asset at a reduced price and caused the Plan to receive very little money in return by causing the Plan to finance the sale at favorable terms. In the plea agreement, Emerson admitted that he was a fiduciary/trustee of the Plan and "the Plan's purchase of the property for the intended use as a parking lot by Maui Sands and the subsequent paving and use of the property for that purpose were prohibited transactions under ERISA because Defendant, as Trustee, had a conflict of interest as owner-developer of Maui Sands." Emerson also admitted that by selling the parcels to his relative and causing the Plan to make a mortgage to his relative, he "willfully converted the parking lot property to his own use and use of relative."

The mortgage between the Plan and the relative contained a clause which entitled the Plan or successor trustee to any lease payments the relative received by leasing the property to the owner or operator of Maui Sands. The plea agreement provided that the amount of restitution would be reduced by any lease payments received by PBGC. Prior to arraignment, Emerson's attorney delivered a $75,000 check to the United States Attorney's Office representing a lease payment received by the relative.

Subsequent to the end of the reporting period for this combined Semiannual report, Emerson was sentenced to three years probation. On May 23, 2012, Emerson was ordered to serve six months of probation on home detention with electronic monitoring and to make restitution to PBGC in the amount of $87,932.86. Further, as Emerson was convicted of a felony count of Title 18 U.S.C. §664, Emerson is prohibited by ERISA §411 from serving or being permitted to serve in the following employee benefit plan positions and capacities for a period of 13 years after his conviction: administrator, fiduciary, officer, trustee, custodian, counsel, agent, employee, consultant, advisor, or representative in any capacity.

The case was investigated jointly by PBGC OIG, the Department of Labor OIG, EBSA, and the Federal Bureau of Investigations.

In addition, while investigating the fiduciary breach, OIG discovered that the Plan had paid an invoice to a CPA firm twice. In March 2011, OIG issued a referral memo to the Office of Chief Counsel (OCC) and the Office of General Counsel advising them of the duplicate payment from the Plan's assets. Pursuant to OCC's collection efforts, PBGC received $4,800 from the CPA firm in May 2012.

Proceeds from Pension Fraud Returned to PBGC

A participant from Blytheville, AR reported to OIG that his former wife filled out a pension application and had his lump sum payment for $3,990.82 diverted to her home address without his knowledge. Once she received the check, the ex-wife forged the participant's name on the check and used his identification to cash the check at a local funeral home in Osceola, AR. A portion of the funds were used to pay off a debt she owed the funeral home; she stated that she planned to keep the remaining money to pay bills and other personal expenses.

We successfully tracked the funds to the funeral home and worked with PBGC's Retiree Services Division to have the funeral home repay the funds to the PBGC. The PBGC received repayment of the full amount,$3,990.82, from the funeral home and a replacement check was sent to the participant.

PBGC Employees Fraudulently Received More than $10,000 in Parking Subsidies

Our investigation found that over a five-year period two Federal employees provided false certifications to PBGC that they were carpooling together and met the subsidized parking requirements. In fact, they had never carpooled to work together during the five-year period. We found that the employees received more than $10,000 in subsidized parking benefits to which they were not entitled. After the US Attorney's Office declined to prosecute the PBGC employees, we referred the matter to PBGC management for action, including appropriate discipline and collection.

PBGC employees defrauded the government and received $10,000 in benefits.

PBGC operates a parking subsidy program that offers reduced parking rates in their 1200 K Street property's underground parking facility for PBGC employees who commute in carpools. Employees may submit a carpool application through which they certify to certain facts, including where they live, how far they commute to work, and the nearest mode of public transportation to their home. One of the mandatory carpool requirements is that employees must make at least eight one-way trips each week in the carpool. Each month, the carpool permit holder certifies that the carpool's information has not changed and the carpool is still eligible to receive the subsidy. The monthly amount of the subsidy can be significant; currently, a two-person carpool only pays $38.74 for a parking space that costs PBGC $226.24 – a $187.50/month subsidy.

PBGC Employee Terminated for Travel and Purchase Card Fraud

We found that, for three government-authorized trips over a period of about two years, a PBGC employee received and retained travel cash advances to pay for lodging expenses that the employee had improperly charged to a PBGC departmental credit card. The employee's actions caused PBGC to pay the lodging costs through the departmental credit card while the employee retained the travel advance that was intended to cover those same lodging expenses. As a result, the employee received $4,133 in cash advances that were not used to pay lodging expenses.

Upon return from travel, the employee prepared and submitted travel expense reports claiming lodging expenses – that is, the employee did not report that the hotel expenses were charged to the departmental credit card. The employee then certified the travel expense reports that the amounts claimed were true and correct and that no payment or credit had been received. When questioned about this matter, the employee admitted retaining the funds for personal use.

Upon the OIG's referral to the U.S. Attorney's Office for the District of Columbia, the matter was accepted for prosecution. Subsequently, due to limited resources and higher case priorities, the U.S. Attorney's Office decided not to prosecute and referred the matter back to OIG. We then issued a Report of Investigation to PBGC for appropriate administrative action. The employee was removed by PBGC.

Management Advisory: Senior-level Manager Misconduct

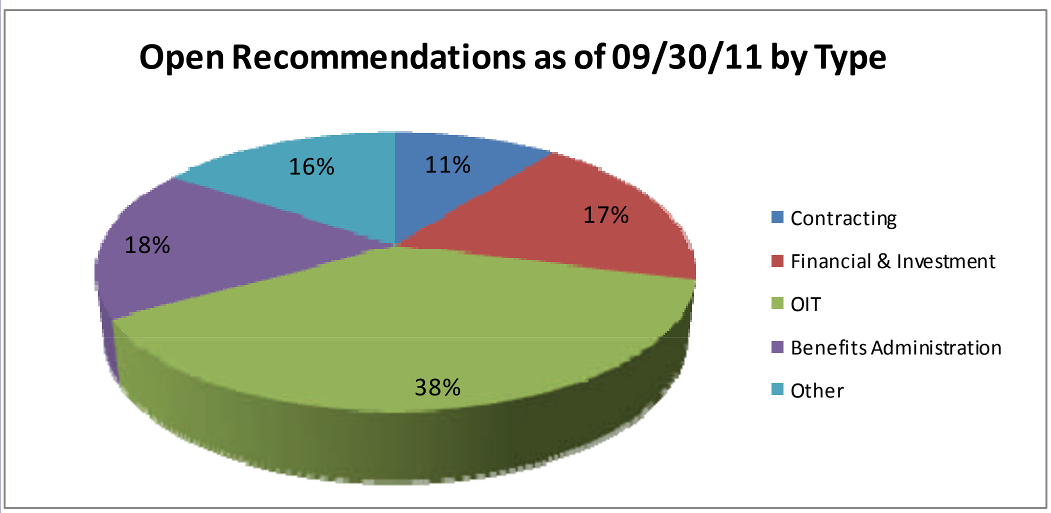
Senior level manager lacked candor in answering OIG questions.

The Office of Inspector General received a complaint that a PBGC senior-level manager made a potentially offensive comment during a training session held March 15, 2011 in the PBGC Training Institute. The training session was designed to provide new managers an introduction to human resources management and was attended by career federal employees from across PBGC.

During multiple interviews with OIG investigators, the senior level manager denied making the comment. However, we interviewed three independent witnesses, including the training consultant hired to present the class, who corroborated that the manager had publicly made statements to the entire class comparing PBGC to "Peyton Place." As a result, the OIG sent a Management Advisory to the PBGC Director advising him of the senior manager's lack of candor in responding to questions from OIG investigators.

Status of Audit Recommendations

As of March 31, 2012, the ending date of the periods covered by this combined report, 195 OIG recommendations were open. As of April 1, 2011, there were 205 open audit recommendations. Upon our review of PBGC's submitted Recommendation Completion Forms (RCFs), we determined that 45 recommendations could be closed for the period ending September 30, 2011. The closure of 45 recommendations resulted in 160 audit recommendations remaining open as of September 30, 2011, of which 61 were IT-related as shown in the chart below:



Open Recommendations by Type	
17	Contracting
29	Financial & Investment
61	OIT
28	Benefits Administration
25	Other
160	Total Open Recommendations

During the following six months (ending 3/31/12), we concurred in the closure of 24 additional recommendations based on our review of information submitted by PBGC. These closures included seven recommendations in the procurement area.

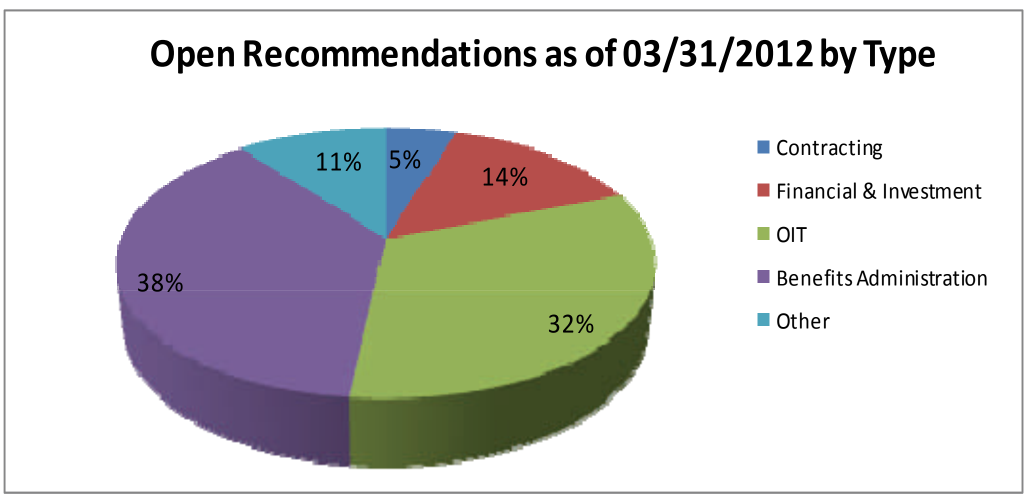
Two items are particularly noteworthy for the one-year period from April 1, 2011 to March 31, 2012:

- We agreed to the closure of 39 audit recommendations related to the Procurement Department. Many of these recommendations had not been addressed for years, including 18 recommendations that were more than 5 years old and an additional 19 recommendations that were between 3 and 5 years old.

- We noted that relatively few recommendations relating to information technology issues could be closed during the period; only 4 IT recommendations open as of April 1, 2011 were closed during following year.

More than one-third of open recommendations relate to BAPD.

For the period ending March 31, 2012, more than one-third (73) of the open recommendations were related to the Benefits Administration and Payment Department. This is primarily due to recent OIG reports addressing significant systemic weaknesses in BAPD's plan asset valuation and participant data audit processes and other weaknesses identified during the financial statement audit. As described in our financial statement audit report, the combination of these findings resulted in a material weakness in PBGC's internal controls. The following charts illustrate Open Recommendations, by type, as of March 31, 2012.



Open Recommendations per Type	
10	Contracting
28	Financial & Investment
63	OIT
73	Benefits Administration
21	Other
195	Total Open Recommendations

PBGC will be challenged to correct these important issues as they address the results of the recent strategic review of their post-termination plan processes; review the knowledge, skills and abilities of their employees and contractors; and ensure that each is trained to do the necessary work consistent with applicable professional standards.

Aging Schedule of Open Recommendations as of September 30, 2011 and March 31, 2012

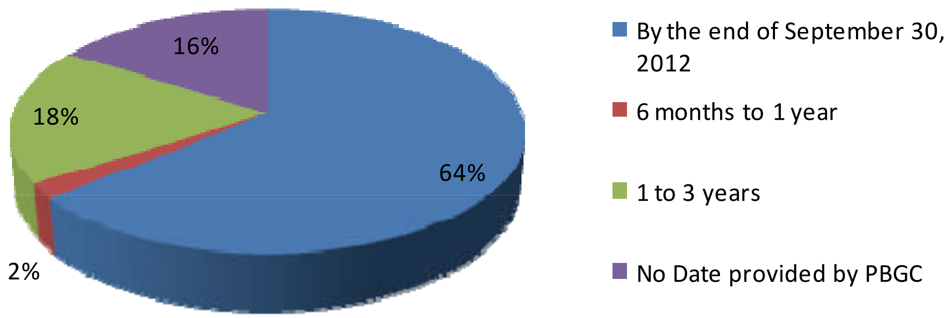
OIG agreed to closure of 69 recommendations during reporting periods.

As noted in the following charts, PBGC has taken steps to address some long-standing issues, with the result that we were able to close out some of the older recommendations. However, despite the closure of 69 recommendations, the backlog of overdue corrective actions has not been significantly reduced. After considering the 59 new recommendations made during the period, PBGC has made only a limited reduction in the number of outstanding audit recommendations — from 205 as of April 1, 2011 to 195 as of March 31, 2012. While the average age of outstanding recommendations was more than two years old, PBGC made some progress in reducing the average age of an open OIG recommendation from 28 months as of April 1, 2011 to 27 months as of March 31, 2012.

As of March 31, 2012, no scheduled completion date has been established for 31 of 195 recommendations. Based on its own internal reports, PBGC plans to complete many of its open recommendations in the near future. A total of 124 recommendations are scheduled for completion by September 30, 2012.

While PBGC should update its plans to ensure that each recommendation has a valid date of planned completion, the Corporation needs to take additional concerted action to address open audit recommendations. Of the 195 recommendations open as of March 31, 2012, the planned completion date for almost 30% (56) has been extended five or more times. For 15 of these recommendations, the planned completion date has been extended ten or more times. This repeated deferral of corrective action indicates that PBGC is routinely failing to meet its own goals for corrective action.

Scheduled Date of Completion for Open Recommendations



Scheduled Date of Completion	
124	By the end of September 30, 2012
4	6 months to 1 year
36	1 to 3 years
31	No date provided by PBGC
195	Total

PBGC plans to close more than one-half of its recommendations within the next six months.

In a recent update, Chief Information Officer advised that a significant number of IT-related recommendations would be addressed, with details of corrective action submitted for OIG's review as part of the upcoming financial audit.

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 reports the following about management decisions on audit reports that occurred during the two six-month periods covered by this combined report:

- As of March 31, 2012, there are three OIG reports with recommendations that do not have an agreed-to management decision. One report is more than six months old; the other two reports were issued more recently.
- PBGC significantly revised its proposed management decisions regarding recommendations included in the report Evaluation of PBGC's Strategic Preparedness for a Potential Workload Influx, issued November 16, 2010. The Corporation had proposed an alternative corrective action, but now advises OIG that a different approach to the reported issues is in the planning process. As of the date of this report, we have not been advised of the new proposed plans.
- There were no management decisions of a material nature with which we did not agree.

Audit Peer Review Results

PBGC OIG has the highest possible peer review rating.

Government Auditing Standards require each audit organization to obtain an external review of its system of quality control every three years and make the results publicly available. In an external peer review of the PBGC OIG' s audit program for the year ending September 30, 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. A copy of this peer review is found at our website: http://oig.pbgc.gov/audit/2010/pdf/PBGC_Peer_Review_Report_2009.pdf.

Other OIG 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 during these periods, and OIG did not review any new proposed regulations.

Audit Peer Review of the Federal Reserve OIG

We conducted a quality control review of the audit operations of the Office of Inspector General of the Board of Governors for the Federal Reserve (FRB). 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 government auditing standards, as required by the Inspector General Act. As part of the peer review, we evaluated the FRB OIG's staff qualifications, their independence, audit work, training, and quality control procedures. The results of this peer review can be found on the FRB OIG's website at http://www.federalreserve.gov/oig/files/peer_review_report_2011_final.pdf.

Audit Manager Receives Prestigious CIGIE Barry R. Snyder Award

OIG manager recognized by Inspector General Community.

Jarvis Rodgers, IT audit manager, received the Barry R. Snyder Joint Award for his work on a subcommittee developing new metrics to assess compliance with the Federal Information Security Management Act. OMB annually asks Inspectors General throughout government to assess their agencies' compliance with the law. Rodgers received this recognition for the leadership role that he played in the Inspector General community through his contributions in developing the Information Security Maturity Model that assists OIGs across government in their efforts to identify cyber-security weaknesses and protect against threats to our nation's IT infrastructure.

Inspector General Guest Speaker at Professional Gatherings

Inspector General Rebecca Anne Batts has spoken at a number of different venues in the past year. Ms. Batts spoke about PBGC's need for stronger management and oversight to the Federal Audit Executive Committee. Together with four other Inspectors General who are also auditors by profession, she addressed the future direction of government auditing and inspector generalship at a conference attended by audit executives of federal OIGs. At the annual CIGIE/GAO Financial Statement Audit Conference, she spoke with OIG and CPA firm financial statement auditors about ways to maximize the value of the annual financial statement audit.

Along with Assistant IG for Investigations Aaron Jordan, Ms. Batts continues to be a guest speaker at sessions of the Executive Leadership Training sponsored by CIGIE and the American University. This course is attended by GS-13s and GS-14s from throughout the IG community. Their presentations focused on the value of networking within the OIG community to achieve mission goals and objectives, engendering a lively student interaction.

OIG Leaders Serve as Chairs of Key CIGIE Committees

During the period covered by this report, the PBGC Inspector General was appointed as chair of the Council of Inspectors General for Integrity and Efficiency (CIGIE) Information Technology Committee. The IT committee comprises Inspectors General from throughout the federal community and facilitates effective OIG information technology audits, evaluations, reviews, and investigations. The Committee also works to ensure that the community's perspective on government-wide IT operations is available to decision makers for their consideration. 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. Ms. Batts also serves on the CIGIE Executive Committee, providing leadership to the Inspector General community and to the CIGIE.

OIG employees contributed to the Inspector General community.

PBGC Assistant Inspector General for Investigations (AIGI) Aaron Jordan was named to a two-year term as Chair of the CIGIE Committee of Assistant Inspectors General for Investigation, a subcommittee of the CIGIE Investigations Committee. He had previously served as vice-chair of the Committee. The AIGI Committee serves as a forum for internal discussion and a channel for suggestions, issues and concerns that affect the OIG investigations community as a whole. The AIGI Committee chairperson and vice chairperson serve as ex-officio members of the CIGIE Investigations Committee. Under Mr. Jordan's leadership, the AIGI Committee undertook review of the Investigative Standards, culminating in the CIGIE issuance of new Investigative Standards in December 2011.

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 chair of the CIGIE Information Technology Committee, and as a member of the CIGIE Executive Council and the CIGIE Audit Committee.

- The Assistant IG for Audit serves on the Accounting and Audit Policy Committee (AAPC), 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 the period covered by this report, the AAPC issued guidance for estimating the historical cost of property, plant, and equipment and on accounting for the disposal of property, plant, and equipment.

- OIG's IT audit manager participated in the Federal Audit Executive Committee Information Technology subcommittee. The FAEC IT Committee engaged in a number of activities to support the broader OIG community. The Committee worked closely with the Department of Homeland Security to refine the FY 2012 FISMA Metrics in an effort to improve reporting to the Office of Management and Budget and other stakeholders. Additionally, noteworthy work was performed in providing input to Congress on proposed cyber security legislative provisions in FISMA and the Cyber Security and Internet Freedom Act (S413).
- OIG's Special Agent-in-Charge participated in the Washington Metro Electronic Crimes Task Force (WMECTF) sponsored by the U.S. Department of Justice.
- An OIG auditor attended 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.

OIG employees are active in professional organizations.

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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.	5-22
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies.	9-10, 14-16, 20-22
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed.	41-42
Section 5(a)(4)	Matters referred to prosecutorial authorities.	36
Section 5(a)(5)	Summary of instances in which information was refused.	30
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.	38-39
Section 5(a)(7)	Summary of each particularly significant report.	5-22
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs.	38-39
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use.	38-39
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.	37, 40
Section 5(a)(11)	Significant revised management decisions.	30
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees.	30

SUMMARY OF AUDIT AND INVESTIGATIVE ACTIVITIES
For the Six-Month Periods Ending September 30, 2011 and March 31, 2012

	Period Ending September 30, 2011	Period Ending March 31, 2012
Audit Reports Issued		
Number of Reports	0	8
Number of Recommendations	0	59
Management Decisions		
Open Recommendations Beginning of Period	205	160
Opened This Period	0	59
Closed This Period	45	24
Open Recommendations End of Period	160	195
Reports with Open Recommendations End of Period	30	28
Investigations		
Pending Beginning of Period	8	13
Opened	8	6
Closed	3	2
Pending End of Period	13	17
Complaints[1]		
Pending Beginning of Period	15	16
Opened	57	48
Closed	56	48
Pending End of Period	16	16
Financial Recoveries[2]		
Funds Recovered	0	$75,000
Criminal Actions[2]		
Indictments	0	1
Administrative Actions[2]	0	1
Referrals		
For Prosecution:		
Department of Justice	2	1
Various States' Attorney Offices	0	0
Declined	2	0
For Other Action:		
PBGC Management for Corrective Action	4	9

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

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

SUMMARY OF REPORTS OLDER THAN SIX MONTHS FOR WHICH MANAGEMENT DECISION HAS NOT BEEN ACHIEVED – Period Ending 9/30/11		
Report and Summary	**Reason For No Management Decision**	**Anticipated Management Decision**
Incurred Cost Audit, 2008-09/CA-0054 (9/30/2008) Questioned Costs of $97,581 for unallowable costs associated with the use of unaudited indirect cost rates.	Management decision is pending as it awaits DCAA's completion of its incurred cost audit and settlement of indirect cost rates.	2/28/2012
PBGC's Strategic Preparations for Handling an Influx of Pension Plans, EVAL 2011-1/PA-09-65 (11/16/10) Develop strategic plan and tactics to ensure PBGC can continue to meet its mission under a range of possible workload scenarios	PBGC had determined not implement the approach initially proposed.	9/30/2012

RESULTS OF REPORTS ISSUED **For the Six-Month Period Ending March 31, 2012**				
	Number of Reports	Questioned Costs	Unsupported Costs	Funds Put to Better Use
A. For which no management decision had been made by the commencement of the reporting period.	2	$97,581	$0	$0
B. Which were issued during the reporting period.				
Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2011 and 2010 Special-Purpose Financial Statements (11/14/11)		$0	$0	$0
Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2011 and 2010 Financial Statements (11/14/11)		$0	$0	$0
Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2011 and 2010 Financial Statements Audit (11/14/11)		$0	$0	$0
FY 2011 Federal Information Security Management Act (FISMA) Submission to the Office of Management and Budget (11/15/11)		$0	$0	$0
PBGC Processing of Terminated United Airlines Pension Plans was Seriously Deficient (11/30/2011)		$0	$0	$26,008,959
Statutory Review of PBGC's Compliance with the Implementation of the Improper Payments Information Act (3/15/12)		$0	$0	$0
Fiscal Year 2011 Vulnerability Assessment and Penetration Testing (3/19/12)		$0	$0	$0
Fiscal Year 2011 Financial Statements Audit Management Letter (3/29/12)		$0	$0	$0
Total (Add A. & B.)	10	$97,581	$0	$26,008,959

C. For which a management decision was made during the reporting period.	7	$97,581	$0	$26,008,959
(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.	3	$0	$0	$0
E. For which no management decision was made within six months of issuance.	1	$0	$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 – Period Ending 3/31/12		
Report and Summary	**Reason For No Management Decision**	**Anticipated Management Decision**
PBGC's Strategic Preparations for Handling an Influx of Pension Plans, EVAL 2011-1/PA-09-65 (11/16/10) Develop strategic plan and tactics to ensure PBGC can continue to meet its mission under a range of possible workload scenarios	PBGC has determined that the actions initially proposed are no longer the course it wants to follow. A revised approach is under development, with direct involvement of the PBGC Director.	9/30/2012

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

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

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

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

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

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

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

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

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