Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 2001 and 2000 Financial Statements

March 29, 2002

2002-3/23157-2

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

Office of Inspector General

To the Board of Directors
Pension Benefit Guaranty Corporation

This letter transmits the PricewaterhouseCoopers LLP report on the audit of the Fiscal Years (FYs) 2001 and 2000 financial statements of Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC). Section 9105 of 31 U.S.C., as amended, requires PBGC's Inspector General or an independent external auditor, as determined by the Inspector General, to audit PBGC's financial statements. The audit is to be performed in accordance with *Government Auditing Standards* as issued by the Comptroller General of the United States and other applicable audit requirements.

PricewaterhouseCoopers issued an unqualified opinion on the FYs 2001 and 2000 financial statements of Single-Employer and Multiemployer Program Funds administered by PBGC. In addition, PricewaterhouseCoopers issued two other reports - an unqualified opinion on PBGC management's assertion about the effectiveness of its internal control and a report on PBGC's compliance with laws and regulations.

The FY 2000 audit identified three reportable conditions within PBGC's internal control. Audit work during FY 2001 confirmed that PBGC had strengthened its controls surrounding the Participant Records Information Systems Management application to warrant downgrading the reportable condition to a less significant management letter comment. However, two other reportable conditions remain.

1. PBGC needs to integrate its financial management systems and improve its systems development life cycle methodology; and
2. PBGC needs to improve and fully test its plan for maintaining continuity of operations.

To fulfill our statutory responsibility, we monitored the quality of PricewaterhouseCoopers' audit work to ensure it was in accordance with *Government Auditing Standards*. Specifically, we:

- reviewed the audit approach and planning;
- evaluated the qualifications and independence of auditors;
- monitored the progress of the audit at key points;
- examined the working papers and reports; and
- performed other procedures that we deemed necessary.

Based on results of our oversight review, the OIG determined that PricewaterhouseCoopers planned, executed, and reported the results of its audit of FYs 2001 and 2000 financial statements of Single-Employer and Multiemployer Program Funds administrated by PBGC in accordance with applicable standards. Therefore, we conclude that PricewaterhouseCoopers' audit work provides a reasonable basis on which to render its January 24, 2002 opinion.

A set of PricewaterhouseCoopers' reports (2002-3/23157-2) is available upon request from the PBGC's Office of Inspector General.

Sincerely,

Wayne Robert Poll

Wayne Robert Poll
Inspector General

February 25, 2002

Audit of the Pension Benefit Guaranty Corporation's
Fiscal Year 2001 and 2000 Financial Statements

Audit Report 2002-3/23157-2

Contents

Abbreviations

AICPA	American Institute of Certified Public Accountants
COOP	Continuity of Operations Plan
ERISA	Employee Retirement Income Security Act of 1974
FASD	Facilities and Services Department
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOD	Financial Operations Department
FRS	Financial Reporting System
IPVFB	Integrated Present Value of Future Benefits
IRMD	Information Resource Management Department
JFMIP	Joint Financial Manager's Improvement Program
OIG	Office of Inspector General
OMB	Office of Management and Budget
PA	Performance Accounting
PAS	Premium Accounting System
PBGC	Pension Benefit Guaranty Corporation
PRISM	Participant Records Information Systems Management
SDLC	Systems Development Life Cycle
TPL	Trust Plan Ledger

Section I

Report of Independent Accountants

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Report of Independent Accountants

To the Inspector General
Pension Benefit Guaranty Corporation

We have audited the accompanying statements of financial condition of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of September 30, 2001 and 2000, and the related statements of operations and changes in net position and statements of cash flows for the years then ended. These financial statements are the responsibility of PBGC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by PBGC at September 30, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

By law, PBGC's Single-Employer Program Fund (the Fund) must be self-sustaining and as such, its premiums must be sufficient to cover both its short and long-term obligations. The Fund is able to meet its short-term benefit obligations and internal analyses indicate that the combined effect of future premium revenue and reduced underfunding of Single-Employer plans may allow the Fund to meet its future obligations as well. While the Fund's statement of financial condition reports a net position (assets in excess of liabilities) of $7.7 billion at September 30, 2001, losses that are "reasonably possible" as a result of unfunded vested benefits are estimated to be $11 billion at September 30, 2001, as discussed in Note 7. To the extent contingent losses currently classified as "reasonably possible" become probable, such as from deteriorating economic conditions or from insolvency of a large plan sponsor, the Fund's net position could be depleted.

The Actuarial Valuation and other supplemental information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with PBGC officials. Based on this limited work, we found no material inconsistencies with the financial statements.

In addition, in accordance with *Government Auditing Standards*, we have issued reports dated January 24, 2002, on management's assertion about the effectiveness of its internal control and on its compliance with laws and regulations. These reports are integral parts of an audit conducted in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read along with the Report of Independent Accountants on the financial statements.

PricewaterhouseCoopers LLP

January 24, 2002

Section II

Report on Internal Control

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Independent Accountants' Report on Internal Control

To the Inspector General
Pension Benefit Guaranty Corporation

We have examined management's assertion that the Pension Benefit Guaranty Corporation's (PBGC or the Corporation) management controls in effect as of September 30, 2001, provided reasonable assurance that assets were safeguarded from material loss and that transactions were executed in accordance with management's authority and with significant provisions of selected laws and regulations, and furthermore, PBGC management controls provided reasonable assurance that transactions were properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and to maintain accountability for assets among funds based upon criteria contained in the Federal Managers' Financial Integrity Act of 1982 (FMFIA). This assertion is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of PBGC's fiscal year 2001 Annual Report to the Congress. Management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) in the United States of America and *Government Auditing Standards,* and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that PBGC's management controls in effect as of September 30, 2001 provided reasonable assurance that assets were safeguarded from material loss and that transactions were executed in accordance with management's authority and with significant provisions of selected laws and regulations, and furthermore, PBGC management controls provided reasonable assurance that transactions were properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and to maintain accountability for assets among funds is fairly stated, in all material respects, based upon criteria contained in the FMFIA.

However, we noted certain matters involving internal control and its operation that we consider reportable conditions under auditing standards generally accepted in the United States of America. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions we noted were: the need for PBGC to integrate its financial management systems and improve its systems development life cycle methodology and the need for PBGC to improve and fully test its plan for maintaining continuity of operations.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described below is believed to be a material weakness.

REPORTABLE CONDITIONS

1. Systems Design and Integration

Financial Management Systems Integration

In prior audits of PBGC, we identified a lack of integration of the Corporation's financial management systems, as defined by the Office of Management and Budget's (OMB) Circular A-127, *Financial Management Systems*. The systems that have been identified and included in the definition of significant PBGC financial management systems include: Performance Accounting (PA) system; Trust Plan Ledger (TPL); Financial Reporting System (FRS); Participant Records Information System Management (PRISM); Premium Accounting System (PAS); and Integrated Present Value of Future Benefits (IPVFB).

OMB Circular A-127 states that financial management systems should be designed to provide for effective and efficient interrelationships between systems.

> *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.*

The Joint Financial Management Improvement Program (JFMIP)'s "Core Financial System Requirements" document, developed for Federal government entities, reinforces the need for integrated financial systems. This document clearly states that:

> *Financial management systems must be designed with effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within systems.*

The document lists the following integrated, financial management system attributes:

- Standard data classifications (definition and formats) established and used for recording financial events,
- Common processes used for processing similar kinds of transactions,
- Internal controls over data entry, transaction processing, and reporting applied consistently, and
- A system design that eliminates unnecessary duplication of transaction entry.

In addition, the JFMIP document further states that for the development of any integrated information system, the following elements need to be incorporated:

- The scope of the functions to be supported (processes),
- How data quality will be assured (data stewardship),
- The information to be processed (management information),
- How systems fit together to support the functions (systems architecture), and
- Safeguards needed to ensure the integrity of operations and data (internal control).

To address this reportable condition that has remained unresolved, PBGC in fiscal year 2001 initiated a workgroup to work with the Office of the Inspector General with the objective of the group to develop a corrective action plan to comply with OMB Circular A-127. This workgroup has met and is still in the process of completing its work plan. As a result, the lack of complete integration continues to impact the Corporation's ability to promptly and efficiently accumulate and summarize information required for internal and external financial reporting.

Systems Development Life Cycle (SDLC) Methodology

In prior years we reported that PBGC had not formalized and implemented an SDLC methodology. We found that although significant improvements were made in developing and documenting the SDLC methodology during fiscal year 2001, the use of this methodology and its corporate-wide acceptance had not been demonstrated as of September 30, 2001.

In general, an SDLC methodology defines the standards for effectively managing software development and includes the following:

- Analysis – Defines the scope of the project and what the organization wants to accomplish. Requirements definition is prepared, which then enables an evaluation of potential solutions;
- Design – After the project team becomes familiar with the requirements and accepted solution, specific parameters and data fields are incorporated into a design which meets the business needs;
- Construction – Reports/screens/interfaces/programs are created and tested, the entire system is tested and accepted by the business user, and policies and procedures are developed, including user manuals;
- Implementation – Data is converted or created, users are trained, and completed/accepted system is delivered to the user and put into production; and
- Post-implementation – Once implemented, a mechanism is in place to define how continued maintenance, support, and operations are performed and monitored, ensuring an effective level of control and adherence to PBGC policies and standards.

In addition to the systems integration issue identified above, OMB Circular A-127 states, "agency financial management systems shall conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems." OMB Circular A-127 also addresses requirements with respect to systems documentation, training and user support, maintenance, financial management system improvements, and internal controls related to the systems. In addition, the JFMIP's "Federal Financial Management Systems Requirements" provides guidance on this subject.

Our fiscal year 2001 testing results disclosed that PBGC successfully completed developing and documenting the major portions of its SDLC methodology. However, PBGC needs to effectively implement the SDLC methodology corporate-wide. In addition to those projects currently in development, all new systems projects, including enhancements to existing applications and those projects performed by contractors, should comply with the SDLC methodology.

In order for effective implementation of the SDLC methodology to take place, PBGC has developed and signed-off on a corporate-wide policy requiring systems related projects to adhere to the SDLC methodology. A corporate-wide implementation of this process, with appropriate oversight from PBGC management, will help ensure this methodology is used consistently in the development of business systems applications. PBGC should consider using this newly developed SDLC methodology to help facilitate and support the corrective action required to address the system integration issue identified above.

The lack of a fully implemented SDLC methodology has historically impacted, and will continue to impact, data conversion efforts, security administration, user acceptance testing, reports definition, and consistency of systems development initiatives.

Systems Development Monitoring and Oversight

PBGC has made improvements in identifying specific criteria to adequately manage and monitor its systems development projects that are outsourced to vendors. Policies for monitoring outside service providers were being developed during fiscal year 2001, attempting to address the roles and responsibilities of PBGC in overseeing the service provider in areas related to security, capacity planning, back-up and recovery, and intrusion detection. However, during fiscal year 2001, we continued to note the lack of compliance with the specific criteria and proper monitoring procedures that impacted the adequacy of logical access controls and the design of front-end processes related to certain PBGC applications.

PBGC is reducing its dependency on current outsourcing arrangements with outside service providers by moving systems in-house and increasing its reliance on contractors to maintain and support those systems; however, those remaining external contractor arrangements still require adequate management and monitoring by PBGC. As an example, the Performance Accounting system (PA) that was processed at the Department of Commerce in UNIX environment was tested as part of the fiscal year 2000 audit for adherence to proper security requirements. Our testing revealed vulnerabilities to the system through the identification of several security weaknesses. During fiscal year 2001, the PA system continued to be processed at the Department of Commerce and although corrective action was being taken to address the security weaknesses, it was not complete. Effective October 1, 2001, the PA system was moved to PBGC to be processed at its headquarters.

PBGC is in the process of improving its compliance and enforcement with the formal methodologies and requirements developed to monitor the ongoing support of its business applications provided by both internal and external contractors, such as third party vendors, that are defined through its SDLC methodology. Also, PBGC is still in the process of improving its compliance with specific procedures for ensuring the continued effectiveness of operational and financial management controls once systems are implemented. As a result, PBGC continues to be vulnerable to weak security procedures that may be incorporated into current and future systems development efforts. This was evidenced in the results of the audit work performed on the PRISM application in fiscal year 2001 as well as the continued security weaknesses related to the processing of the PA system at the Department of Commerce.

Recommendations:

We acknowledge improvements through the efforts of the Corporation in the areas noted above. However, we continue to recommend that PBGC:

- Complete its efforts to integrate its financial management systems, in accordance with OMB Circular A-127 and its Five-Year Financial Management Systems Plan; **(OIG Control Number FOD-268)**

- Follow the formal systems development life cycle methodology on systems acquisition or development projects, and require the same of contractors; and **(OIG Control Number IRMD-92)**

- Identify specific criteria to allow PBGC to effectively monitor systems outsourcing relationships. **(OIG Control Number IRMD-93)**

2. Continuity of Operations

In prior audits, we reported that PBGC had not provided the necessary attention to business continuity issues and had not fully developed and tested a thorough contingency/business continuity plan.

In October 1998, Presidential Decision Directive #67 (PDD 67) was issued requiring all Federal departments and agencies to have a viable Continuity of Operations Plans (COOP) plan in place by October 1999. The following requirements are to be met for every COOP developed:

- Must be able to become operational not later than 12 hours after activation.
- Must be capable of sustaining operations for up to 30 days.
- Must be constantly monitored and updated as circumstances and organizations change.
- Must provide plans and procedures for orderly succession under all circumstances.
- Must contain all needed delegations of authority for continued decision making.
- Must identify essential functions, alternative sites, and vital records.
- Must provide for testing, training, and evaluation.

The intent of the COOP was not to replace any existing contingency plans, but to act as a unifying concept to superimpose the above functions if and when a problem threatens serious disruption to agency operations. The plans should identify such items as emergency communications, establishing a chain of command, and delegation of authority.

In the past two years PBGC has made progress in developing its COOP for each department and functional area. PBGC identified the Facilities and Services Department (FASD) as the central point for coordinating PBGC contingency and COOP efforts. This coordination includes the development and testing of plans for hardware, communications, and application recovery.

While the COOP, as defined by PDD 67, can be interpreted as a business recovery plan, an overall contingency plan that defines responsibility to declare an emergency situation and coordinate the recovery efforts still needs to be put in place. PBGC has improved its documentation of a contingency plan and its COOPs. However, our fiscal year 2001 testing still identified a number of deficiencies that, in our view, would impair PBGC's ability to respond effectively to a disruption in business operations. Furthermore, testing of the recovery process has not been consistent and mission-critical systems have not been completely identified for testing. Specifically, we noted the following:

- PBGC did not provide evidence of a formal Business Impact Analysis to identify and validate critical workloads. The process documented by PBGC only identified the systems, not the workloads relative to recovery and processing and did not prioritize the systems and/or associated workloads.

- PBGC updated the existing contingency plan/COOP in fiscal year 2001, but did not address the current computing environment at PBGC, to include necessary mission critical systems, including contractor-supported systems, impacting the requirements to complete a recovery process.

- Although PBGC defined a location where a recovery process for computer systems would be initiated, it is still questionable as to how a full recovery, including staff and contractors, would be accomplished and the time frame needed.

- PBGC performed only a partial test of the existing disaster recovery plan in fiscal year 2001. Specifically, PBGC did not completely test critical functions as defined to date and its formal schedule of future tests does not anticipate such a test until fiscal year 2003.

Additional issues we identified during this year's audit included the following:

- Specific procedures for restoring operations and applications have not been included as part of the COOPs or as part of any other recovery plan. Also, although manual/peripheral processing procedures may be documented and maintained by user groups, these procedures, or specific references to the procedures, have not been included. Only very high-level responsibilities/actions have been documented.

- Identification of specific critical data files has not been documented. The "Vital Records and Databases" section of each COOP lists emergency operating records as well as legal and financial rights records. In this section, the records are documented according to category, description, type of record (e.g., paper or electronic), offsite storage location, and maintenance frequency for the records. However, identification of specific critical data files with their relationship to specific applications has not been documented.

- Not all of the COOPs contain information on alternate facilities. Only some of the department COOPs list DOL, 1200 K. St., and 1275 K. St. as their alternate sites. Where alternative sites are not appropriate, specific details of the procedures to be followed for staff and contractors affected are not documented. In addition, there is no mention of the Wilmington hot-site or its need in the recovery process in any of the COOPs.

In addition to PDD 67, OMB Circular A-130, *Management of Federal Information Resources,* requires agencies to establish controls for assuring adequate security for information processed, transmitted, or stored in Federal automated information systems. Appendix III of the Circular emphasizes the importance of developing a plan for restoring critical operations for a Federal agency's information systems environment. It anticipates that there will inevitably be some service interruptions to an entity's system environment. It further states that "agency plans should assure that there is an ability to recover and provide service sufficient to meet the minimal needs of users of the systems."

Although PBGC has taken some positive steps to address its ability to continue performing its required business operations, improvements are still needed to strengthen PBGC's ability to recover from an unanticipated disruption to its service. We believe PBGC remains vulnerable should a disaster or an extended business disruption occur.

Recommendations

We acknowledge improvements through the efforts of the Corporation in the areas noted above. However, we continue to recommend that PBGC:

- Conduct a Business Impact Analysis to validate critical workloads. In addition, recovery priorities should be established and documented for mission critical systems. IRMD can serve as the central point for developing these priorities and help facilitate and coordinate the efforts required to complete this process; **(OIG Control Number FASD-112)**

- Update the appropriate existing contingency/disaster recovery plan to reflect the current computing environment at PBGC; **(OIG Control Number IRMD-104)**

- Develop detailed procedures for the recovery of PBGC operations; and **(OIG Control Number FASD-114)**

- Test the contingency/disaster recovery procedures on a regular basis using sufficiently detailed test plans and scenarios. Review and incorporate test results, as appropriate, in the contingency/disaster recovery plan in a timely manner. **(OIG Control Number FASD-115)**

Additionally, we further recommend that PBGC:

- Ensure that each department document specific procedures such as manual/peripheral processing procedures for restoring applications and operations as part of its COOP, including specific references to critical data files required. **(OIG Control Number FASD-117)**

- Include requirements for the use of alternate facilities in each of the COOP plans, if needed, as well as instructions for staff and contractors as to their role in the recovery process and where they would perform their duties. **(OIG Control Number FASD-118)**

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We also noted other matters involving internal control and its operation that we will communicate in a separate letter.

This report is intended solely for the information and use of PBGC's Office of Inspector General, its Board of Directors, the management of PBGC, and the United States Congress, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

Washington, DC
January 24, 2002

Section III

Report on Compliance with Applicable Laws and Regulations

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Independent Accountants' Report on Compliance with Laws and Regulations

To the Inspector General
Pension Benefit Guaranty Corporation

We have audited the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC or the Corporation) as of and for the year ended September 30, 2001, and have issued our report thereon dated January 24, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards,* issued by the comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to PBGC is the responsibility of PBGC's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of PBGC's compliance with certain provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Federal Managers' Financial Integrity Act of 1982, the Retirement Protection Act of 1994, the Chief Financial Officers Act of 1990, and the Anti-Deficiency Act (limited to comparing the Corporation's recorded payments to related authorized limitations on certain payments and apportionments). However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of non-compliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended solely for the information and use of PBGC's Office of Inspector General, its Board of Directors, the management of PBGC, and the United States Congress, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

January 24, 2002

Section IV

Pension Benefit Guaranty Corporation's Fiscal Years 2001 and 2000 Financial Statements and Notes to the Financial Statements

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(Dollars in millions)	Single-Employer Program September 30, 2001	Single-Employer Program September 30, 2000	Multiemployer Program September 30, 2001	Multiemployer Program September 30, 2000	Memorandum Total September 30, 2001	Memorandum Total September 30, 2000
ASSETS						
Cash and cash equivalents	**$ 776**	$ 456	**$ 17**	$ 8	**$ 793**	$ 464
Investments, at market (Note 3):						
Fixed maturity securities	**13,829**	11,719	**777**	671	**14,606**	12,390
Equity securities	**6,245**	8,186	**2**	3	**6,247**	8,189
Real estate and real estate investment trusts	**40**	16	**0**	0	**40**	16
Other	**120**	32	**0**	0	**120**	32
Total investments	**20,234**	19,953	**779**	674	**21,013**	20,627
Receivables, net:						
Sponsors of terminated plans	**367**	28	**0**	0	**367**	28
Premiums (Note 9)	**153**	143	**1**	1	**154**	144
Sale of securities	**45**	57	**0**	0	**45**	57
Investment income	**182**	189	**10**	11	**192**	200
Other	**8**	2	**0**	0	**8**	2
Total receivables	**755**	419	**11**	12	**766**	431
Furniture and fixtures, net	**3**	2	**0**	0	**3**	2
Total assets	**$21,768**	$20,830	**$807**	$694	**$22,575**	$21,524

The accompanying notes are an integral part of these financial statements.

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF FINANCIAL CONDITION

(Dollars in millions)	Single-Employer Program September 30, 2001	2000	Multiemployer Program September 30, 2001	2000	Memorandum Total September 30, 2001	2000
LIABILITIES						
Present value of future benefits, net (Note 4):						
Trusteed plans	**$12,694**	$ 9,426	**$ 4**	$ 4	**$12,698**	$ 9,430
Terminated plans pending trusteeship	**215**	62	**0**	0	**215**	62
Settlements and judgments	**177**	242	**0**	0	**177**	242
Claims for probable terminations	**411**	901	**0**	0	**411**	901
Total present value of future benefits, net	**13,497**	10,631	**4**	4	**13,501**	10,635
Present value of nonrecoverable future financial assistance (Note 5)			**679**	414	**679**	414
Unearned premiums (Note 9)	**191**	206	**8**	9	**199**	215
Due for purchases of securities	**195**	144	**0**	0	**195**	144
Accounts payable and accrued expenses (Note 6)	**153**	145	**0**	0	**153**	145
Commitments and contingencies (Notes 7, 8, 14 and 15)						
Total liabilities	**14,036**	11,126	**691**	427	**14,727**	11,553
Net position	**7,732**	9,704	**116**	267	**7,848**	9,971
Total liabilities and net position	**$21,768**	$20,830	**$807**	$694	**$22,575**	$21,524

The accompanying notes are an integral part of these financial statements.

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
(Dollars in millions)	**2001**	2000	**2001**	2000	**2001**	2000
UNDERWRITING:						
Income:						
Premium (Note 9)	**$ 821**	$ 807	**$ 24**	$ 24	**$ 845**	$ 831
Other	**23**	5	**0**	0	**23**	5
Total	**844**	812	**24**	24	**868**	836
Expenses:						
Administrative	**171**	152	**0**	0	**171**	152
Other	**2**	(2)	**0**	0	**2**	(2)
Total	**173**	150	**0**	0	**173**	150
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 10)	**705**	(80)	**0**	0	**705**	(80)
Losses from financial assistance (Note 5)			**269**	26	**269**	26
Actuarial adjustments (Note 4)	**(93)**	(200)	**1**	0	**(92)**	(200)
Total	**612**	(280)	**270**	26	**882**	(254)
Underwriting income (loss)	**59**	942	**(246)**	(2)	**(187)**	940
FINANCIAL:						
Investment income (loss) (Note 11):						
Fixed	**1,669**	1,081	**96**	69	**1,765**	1,150
Equity	**(2,509)**	1,310	**(1)**	1	**(2,510)**	1,311
Other	**(3)**	1	**0**	0	**(3)**	1
Total	**(843)**	2,392	**95**	70	**(748)**	2,462
Expenses:						
Investment	**13**	15	**0**	0	**13**	15
Actuarial charges (credits) (Note 4):						
Due to passage of time	**780**	658	**0**	0	**780**	658
Due to change in interest rates	**395**	(5)	**0**	0	**395**	(5)
Total	**1,188**	668	**0**	0	**1,188**	668
Financial income (loss)	**(2,031)**	1,724	**95**	70	**(1,936)**	1,794
Net income (loss)	**(1,972)**	2,666	**(151)**	68	**(2,123)**	2,734
Net position, beginning of year	**9,704**	7,038	**267**	199	**9,971**	7,237
Net position, end of year	**$ 7,732**	$9,704	**$ 116**	$267	**$ 7,848**	$9,971

The accompanying notes are an integral part of these financial statements.

PENSION BENEFIT GUARANTY CORPORATION

STATEMENTS OF CASH FLOWS

	Single-Employer Program For the Years Ended September 30,		Multiemployer Program For the Years Ended September 30,		Memorandum Total For the Years Ended September 30,	
(Dollars in millions)	**2001**	2000	**2001**	2000	**2001**	2000
OPERATING ACTIVITIES:						
Premium receipts	**$ 794**	$ 902	**$ 25**	$ 24	**$ 819**	$ 926
Interest and dividends received, net	**861**	775	**46**	49	**907**	824
Cash received from plans upon trusteeship	**592**	32	**0**	0	**592**	32
Receipts from sponsors	**22**	28	**0**	0	**22**	28
Other receipts	**16**	10	**0**	0	**16**	10
Benefit payments - trusteed plans	**(1,027)**	(895)	**(1)**	(1)	**(1,028)**	(896)
Financial assistance payments			**(4)**	(91)	**(4)**	(91)
Settlements and judgments	**(156)**	(162)	**0**	0	**(156)**	(162)
Pretermination payments	**(11)**	(25)	**0**	0	**(11)**	(25)
Payments for administrative and other expenses	**(180)**	(175)	**0**	0	**(180)**	(175)
Net cash provided (used) by operating activities (Note 13)	**911**	490	**66**	(19)	**977**	471
INVESTING ACTIVITIES:						
Proceeds from sales of investments	**13,623**	12,824	**384**	401	**14,007**	13,225
Payments for purchases of investments	**(14,214)**	(13,353)	**(441)**	(383)	**(14,655)**	(13,736)
Net cash provided (used) by investing activities	**(591)**	(529)	**(57)**	18	**(648)**	(511)
Net increase (decrease) in cash and cash equivalents	**320**	(39)	**9**	(1)	**329**	(40)
Cash and cash equivalents, beginning of year	**456**	495	**8**	9	**464**	504
Cash and cash equivalents, end of year	**$ 776**	$ 456	**$ 17**	$ 8	**$ 793**	$ 464

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2001 AND 2000

Note 1 -- Organization and Purpose

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) and is subject to the provisions of the Government Corporation Control Act. Its activities are defined in ERISA as amended by the Multiemployer Pension Plan Amendments Act of 1980, the Single-Employer Pension Plan Amendments Act of 1986, the Pension Protection Act of 1987, and the Retirement Protection Act of 1994. The Corporation insures pensions, within statutory limits, of participants in covered single-employer and multiemployer defined benefit pension plans that meet the criteria specified in Section 4021 of ERISA.

ERISA requires that PBGC programs be self-financing. The Corporation finances its operations through premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA as amended and investment income. In addition, PBGC may borrow up to $100 million from the U.S. Treasury to finance its operations. The Corporation did not use this borrowing authority during the years ended September 30, 2001, or September 30, 2000, nor is use of this authority currently planned. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

Under the single-employer program, PBGC is liable for the payment of guaranteed benefits with respect only to underfunded terminated plans. An underfunded plan may terminate only if PBGC or a bankruptcy court finds that one of the four conditions for a distress termination, as defined in ERISA, is met or if PBGC involuntarily terminates a plan under one of five specified statutory tests. The net liability assumed by PBGC is generally equal to the present value of the future benefits (including amounts owed under Section 4022(c) of ERISA) less (1) the amounts that are provided by the plan's assets and (2) the amounts that are recoverable by PBGC from the plan sponsor and members of the plan sponsor's controlled group, as defined by ERISA.

Under the multiemployer program, if a plan becomes insolvent, it receives financial assistance from PBGC to allow the plan to continue to pay participants their guaranteed benefits. PBGC recognizes assistance as a loss to the extent that the plan is not expected to be able to repay these amounts from future plan contributions, employer withdrawal liability or investment earnings.

Note 2 -- Significant Accounting Policies

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from those estimates.

Revolving and Trust Funds: PBGC accounts for its single-employer and multiemployer programs' revolving and trust funds on an accrual basis. Each fund is charged its portion of the benefits paid each year. PBGC has combined the revolving and trust funds for presentation purposes in the financial statements. The single-employer and multiemployer programs are separate programs by law and, therefore, PBGC reports them separately.

ERISA provides for the establishment of revolving funds that are to be used by PBGC in carrying out its duties. The revolving funds support the operational and administrative functions of PBGC and fund any deficits incurred by PBGC in trusteeing plans or providing financial assistance. Premiums collected from ongoing plans are accounted for through the revolving funds. The Pension Protection Act of 1987 created a single-employer revolving fund that is credited with all premiums in excess of $8.50 per participant, including all penalties and interest charged on these amounts, as well as investment income. This fund may not be used to pay PBGC's administrative costs or the benefits of any plan terminated prior to October 1, 1988, unless no other amounts are available.

The trust funds reflect accounting activity associated with: (1) trusteed plans -- plans for which PBGC has legal responsibility, (2) plans pending trusteeship -- terminated plans for which PBGC has not become legal trustee by fiscal year-end, and (3) probable terminations -- plans that PBGC determines are likely to terminate and be trusteed by PBGC. PBGC cannot exercise legal control over a plan's assets until PBGC becomes trustee, which may be several years after the date of plan termination.

Allocation of Revolving and Trust Funds: PBGC allocates revolving and trust fund assets, liabilities, income and expenses to each program's revolving and trust funds to the extent that such amounts are not directly attributable to a specific fund. Revolving fund income is allocated on the basis of each program's average cash available for investment during the year while the expenses are allocated on the basis of each program's present value of future benefits. Revolving fund assets and liabilities are allocated on the basis of the year-end equity of each program's revolving funds. The plan assets acquired by PBGC and commingled at PBGC's custodian bank are credited directly to the appropriate fund while the earnings and expenses on the commingled assets are allocated to each program's trust funds on the basis of each trust fund's value, relative to the total value of the commingled fund.

Valuation Method: Consistent with accounting principles generally accepted in the United States of America outlined in Statements of Financial Accounting Standards Nos. 35 ("Accounting and Reporting by Defined Benefit Pension Plans"), 60 ("Accounting and Reporting by Insurance Enterprises"), 87 ("Employers' Accounting for Pensions") and 133 ("Accounting for Derivative Instruments and Hedging Activities"), as amended, PBGC reports its assets and liabilities at fair value. A primary objective of PBGC's financial statements is to provide financial information that is useful in assessing PBGC's present and future ability to ensure that defined benefit pension plan beneficiaries receive benefits when due. PBGC believes that measuring its assets and liabilities at fair value provides the most relevant information to the reader.

Cash and Cash Equivalents: Cash includes cash on hand and demand deposits. Cash equivalents are securities with a maturity of one business day.

Investment Valuation and Income: PBGC bases fair values on the last sale of a listed security, on the mean of the "bid-and-asked" for nonlisted securities or on a valuation model in the case of fixed-income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using an average cost basis.

Any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC (see Notes 3, 4, and 11).

Sponsors of Terminated Plans, Receivables: The amounts due from sponsors of terminated plans or members of their controlled group represent the settled claims for employer liability (underfunding as of date of plan termination) and for contributions due their plan less an allowance for uncollectible amounts. PBGC discounts any amounts expected to be received beyond one year for time and risk factors. Some agreements between PBGC and plan sponsors provide for contingent payments based on future profits of the sponsors. The Corporation will report any such future amounts realized in the period in which they accrue or are received.

Premiums: Premiums receivable represent the earned but unpaid portion of the premiums for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including collectible penalties and interest. Unearned premiums represent an estimate of payments received during the fiscal year that cover the portion of a plan's year after the Corporation's fiscal year-end. Premium income represents revenue generated from self-assessments from defined benefit pension plans as required by Title IV of ERISA (see Note 9).

Present Value of Future Benefits (PVFB): The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay with respect to trusteed plans and terminated plans pending trusteeship. This liability is stated as the actuarial present value of estimated future benefits less the present value of estimated recoveries from sponsors and members of their controlled group and the assets of terminated plans pending trusteeship. PBGC also includes the estimated liabilities attributable to probable future plan terminations as a separate line item in the PVFB (net of estimated recoveries and assets). To measure the actuarial present value, PBGC used assumptions to adjust the value of those future payments to reflect the time value of money (by discounting) and the probability of payment (by means of decrements, such as for death or retirement). PBGC also included anticipated expenses to settle the benefit obligation in the determination of the PVFB.

(1) Trusteed Plans -- represents the present value of future benefit payments less the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated and been trusteed by PBGC prior to fiscal year-end.

(2) Terminated Plans Pending Trusteeship -- represents the present value of future benefit payments less the plans' net assets (at fair value) anticipated to be received and the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated but have not been trusteed by PBGC prior to fiscal year-end.

(3) Settlements and Judgments -- represents estimated liabilities related to settled litigation.

(4) Net Claims for Probable Terminations -- includes reasonable estimates of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in a future year. These estimated losses are based on conditions that existed as of PBGC's fiscal year-end. Management believes it is likely that one or more events subsequent to PBGC's fiscal year-end will occur, confirming the fact of the loss.

PBGC's benefit payments to participants represent a reduction to the PVFB (see Note 4).

Present Value of Nonrecoverable Future Financial Assistance: In accordance with Title IV of ERISA, PBGC provides financial assistance to multiemployer plans, in the form of loans, to enable the plans to pay guaranteed benefits to participants and reasonable administrative expenses. These loans, issued in exchange for interest-bearing promissory notes, constitute an obligation of each plan.

The present value of nonrecoverable future financial assistance represents the estimated nonrecoverable payments to be provided by PBGC in the future to multiemployer plans that will not be able to meet their benefit obligations. The present value of nonrecoverable future financial assistance is based on the difference between the present value of future guaranteed benefits and expenses and the market value of plan assets, including the present value of future amounts expected to be paid by employers, for those plans that are expected to require future assistance. The amount reflects the rates at which, in the opinion of management, these liabilities (net of expenses) could be settled in the market for single-premium nonparticipating group annuities issued by private insurers (see Note 5).

Other Expenses: These expenses represent a current period estimate of the net amount of receivables deemed to be uncollectible. The estimate is based on the most recent status of the debtor (e.g., sponsor), the age of the receivables and other factors that indicate the element of uncollectibility in the receivables outstanding.

Losses from Completed and Probable Terminations: Amounts reported as losses from completed and probable terminations represent the difference as of the date of plan termination between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, by PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 10). In addition, the plan's net income from date of plan termination to the beginning of the fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

Actuarial Adjustments and Charges (Credits): PBGC classifies actuarial adjustments related to changes in method and the effect of experience as underwriting activity. Actuarial charges (credits) related to changes in interest rates and passage of time are classified as financial activity. These adjustments and charges (credits) represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 4).

Depreciation: PBGC calculates depreciation of its furniture and equipment on a straight-line basis over the estimated useful lives of the assets. The useful lives range from 5 to 10 years. Routine maintenance and leasehold improvements (the amounts of which are not material) are charged to operations as incurred.

Reclassifications: Certain amounts in the 2000 financial statements have been reclassified to be consistent with the 2001 presentation.

Note 3 -- Investments

Premium receipts are invested in securities issued by the U.S. Government.

The trust funds include assets PBGC acquires or expects to acquire with respect to terminated plans and investment income thereon. These assets generally are held by custodian banks.

The basis and market value of the investments by type are detailed below. The basis indicated is cost of the asset if acquired after the date of plan termination or the market value at date of plan termination if the asset was acquired as a result of a plan's termination. Realized and unrealized gains and losses, in addition to interest and dividends earned on these investments, are disclosed in Note 11.

INVESTMENTS OF SINGLE-EMPLOYER REVOLVING FUNDS AND SINGLE-EMPLOYER TRUSTEED PLANS

(Dollars in millions)

	September 30, 2001		September 30, 2000	
	Basis	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$12,399**	**$13,206**	$11,110	$11,299
Commercial paper	**0**	**0**	27	27
Asset backed securities	**333**	**338**	176	175
Corporate and other bonds	**286**	**285**	217	218
Subtotal	**13,018**	**13,829**	11,530	11,719
Equity securities	**4,283**	**6,245**	4,150	8,186
Real estate and real estate investment trusts	**39**	**40**	15	16
Other:				
Insurance contracts	**119**	**120**	35	31
Other investments	**0**	**0**	1	1
Total *	**$17,459**	**$20,234**	$15,731	$19,953

* This includes securities on loan at September 30, 2001, and September 30, 2000, with a market value of $119 million and $109 million, respectively.

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS

(Dollars in millions)

	September 30, 2001		September 30, 2000	
	Basis	**Market Value**	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	**$729**	**$777**	$660	$671
Equity securities	**1**	**2**	2	3
Total	**$730**	**$779**	$662	$674

<u>Derivative Investments:</u> Financial Accounting Standard No. 133, as amended, is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. PBGC elected early adoption beginning with fiscal year 2000. During fiscal years 2000 and 2001, PBGC invested in an investment product that contained Standard & Poor's (S&P) 500 financial futures contracts. The objective of this investment strategy is to exceed, net of fees, the total rate of return of the S&P 500 Index while maintaining a very similar risk level to that of the index. S&P 500 Index futures are used to obtain cost-effective equity exposure for the strategy. In 2001 PBGC also invested in an investment product that contained U.S. Treasury bond futures contracts, Euro government bond futures contracts and foreign currency forward contracts. The objective of this investment strategy is to exceed, net of fees, the total rate of return of a customized benchmark for a global balanced mandate while maintaining a very similar risk level to that benchmark. U.S. Treasury Note futures were held in a portfolio to affect sector allocation and to adjust interest rate exposure (duration). Foreign futures were held in a portfolio to obtain government debt exposure (duration) in a timely and efficient manner. Foreign currency forwards were held in a portfolio to hedge currency exposure (i.e., minimize currency risk) of certain assets and to adjust overall currency exposure to reflect the investment views of the portfolio managers regarding relationships between currencies. PBGC is accomplishing these objectives typically, but not exclusively, by holding long and short positions in stock index futures, government bond futures, foreign currency forward contracts and other derivative instruments. The counterparties to PBGC's foreign currency exchange contracts are major financial institutions. PBGC has never experienced non-performance by any of its counterparties. In addition to the initial margin of generally 1 to 6 percent maintained with the broker in Treasury bills or similar instruments, financial futures contracts require daily settlement of variation margin. For the fiscal years ended September 30, 2001, and September 30, 2000, gains and losses from settled margin calls are reported in Investment Income on the Statements of Operations and Changes in Net Position. PBGC limits its investment in these derivative instruments to the investments in two portfolios. At September 30, 2001, and September 30, 2000, the notional cost amount (not an amount actually at risk, nor is it an amount that is actually exchanged) of the financial futures contracts was approximately $253 million and $371 million, respectively. Open currency forward contracts as of September 30, 2001, in U.S. dollar terms were approximately $120 million long U.S. dollar/short foreign currencies and approximately $75 million long foreign currencies/short U.S. dollar. The fair value of the derivative instruments (the amount needed to settle at September 30) reported on the Statements of Financial Condition was approximately $5 million in Receivables, net: Other at September 30, 2001, and $5 million in Accounts payable and accrued expenses at September 30, 2000.

Financial futures contracts are traded on organized exchanges and thus bear minimal credit risk. The exchange clears, settles and guarantees transactions occurring through its facilities. Institutional investors hold these futures contracts on behalf of PBGC and mark to market daily. In periods of extreme volatility, margin calls may create a high liquidity demand on the underlying portfolio. To mitigate this, PBGC maintains adequate liquidity in its portfolio to meet these margin calls.

Security Lending: PBGC participates in a security lending program administered by its custodian bank. The custodian bank requires collateral that equals 102 percent to 105 percent of the securities lent. The collateral is held by the custodian bank. In addition to the lending program managed by the custodian bank, some of PBGC's investment managers are authorized to invest in repurchase agreements and reverse repurchase agreements. The manager either receives cash as collateral or pays cash out to be used as collateral. Any cash collateral received is invested. The total value of securities on loan at September 30, 2001, and September 30, 2000, was $119 million and $109 million, respectively.

Note 4 -- Present Value of Future Benefits

The following table summarizes the actuarial adjustments, charges and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 2001 and 2000.

PBGC used a 20-year select interest rate of 6.70% followed by an ultimate rate of 5.25% for 2001 and a 25-year select interest rate of 7.00% followed by an ultimate rate of 6.75% for 2000. These rates were determined to be those needed to continue to match the survey of annuity prices provided by the American Council of Life Insurers. PBGC's regulations state that both the interest rate and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of expenses) could be settled in the market at September 30, for single-premium nonparticipating group annuities issued by private insurers. Many factors, including Federal Reserve policy, may impact these rates.

For September 30, 2001, PBGC used the 1994 Group Annuity Mortality (GAM) Static Table (with margins), set forward two years and projected 15 years to 2009 using Scale AA. For September 30, 2000, PBGC used the same table, set forward two years but projected 14 years to 2008 using Scale AA.

The reserve for administrative expenses in the 2001 and 2000 valuation was assumed to be 1.18 percent of benefit liabilities plus additional reserves for cases whose plan asset determinations, participant database audits and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants and time since trusteeship. PBGC updated the expense model in 2000 based on a study prepared by an independent consultant.

The present values of future benefits for trusteed multiemployer plans for 2001 and 2000 reflect the payment of benefits and the changes in interest assumptions, passage of time and the effect of experience.

The resulting liability represents PBGC's best estimate of the measure of anticipated experience under these programs.

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 2001 AND 2000

(Dollars in millions)

	September 30, 2001		September 30, 2000	
Present value of future benefits, at beginning of year -- Single-Employer, net		**$10,631**		$11,073
Estimated recoveries		**205**		30
Assets of terminated plans pending trusteeship, net		**84**		41
Present value of future benefits at beginning of year, gross		**10,920**		11,144
Settlements and judgments		**(242)**		(228)
Net claims for probable terminations, prior year		**(901)**		(1,087)
Actuarial adjustments -- underwriting:				
Changes in method and assumptions	**$ (63)**		$ (109)	
Effect of experience	**(30)**		(91)	
Total actuarial adjustments -- underwriting	**(93)**		(200)	
Actuarial charges (credits) -- financial:				
Passage of time	**780**		658	
Change in interest rates	**395**		(5)	
Total actuarial charges -- financial	**1,175**		653	
Total actuarial charges		**1,082**		453
Terminations:				
Current year	**3,726**		439	
Changes in prior year	**(37)**		(42)	
Total terminations		**3,689**		397
Benefit payments*		**(1,043)**		(902)
Estimated recoveries		**(19)**		(205)
Assets of terminated plans pending trusteeship, net		**(577)**		(84)
Settlements and judgments		**177**		242
Net claims for probable terminations:				
Future benefits**	**1,350**		2,752	
Estimated plan assets and recoveries from sponsors	**(939)**		(1,851)	
Total net claims, current year		**411**		901
Present value of future benefits, at end of year -- Single-Employer, net		**13,497**		10,631
Present value of future benefits, at end of year -- Multiemployer		**4**		4
Total present value of future benefits, at end of year, net		**$13,501**		$10,635

* The benefit payments of $1,043 million and $902 million include $16 million in 2001 and $7 million in 2000 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $1,350 million and $2,752 million for fiscal years 2001 and 2000, respectively, include $55 million and $119 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified and $1,295 million and $2,633 million, respectively, in net claims for specifically identified probables.

The following table details the assets that make up single-employer terminated plans pending trusteeship:

ASSETS OF SINGLE-EMPLOYER TERMINATED PLANS PENDING TRUSTEESHIP, NET

(Dollars in millions)

	September 30, 2001		September 30, 2000	
	Basis	**Market Value**	Basis	Market Value
U.S. Government securities	**$ 26**	**$ 26**	$ 2	$ 2
Corporate bonds	**197**	**195**	14	14
Equity securities	**338**	**338**	36	37
Insurance contracts	**1**	**1**	3	3
Other	**17**	**17**	28	28
Total, net	**$579**	**$577**	$83	$84

Net Claims for Probable Terminations: Factors that are presently not fully determinable may be responsible for these claim estimates differing from actual experience. Included in net claims for probable terminations is a provision for future benefit liabilities for plans not specifically identified.

The values recorded in the following reconciliation table have been adjusted to the expected dates of termination.

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS
(Dollars in millions)

	September 30, 2001		2000	
Net claims for probable terminations, at beginning of year		**$ 901**		$1,087
New claims	**$ 318**		$ 36	
Actual terminations	**(734)**		(99)	
Eliminated probables	**0**		(53)	
Change in benefit liabilities	**(15)**		27	
Change in plan assets	**(59)**		(35)	
Change in expected recoveries	**0**		(62)	
Loss (credit) on probables		**(490)***		(186)*
Net claims for probable terminations, at end of year		**$ 411**		$ 901

* See Note 10

Note 5 -- Multiemployer Financial Assistance

PBGC provides financial assistance to multiemployer defined benefit pension plans in the form of loans. An allowance is set up to the extent that repayment of these loans is not expected.

NOTES RECEIVABLE
MULTIEMPLOYER FINANCIAL ASSISTANCE
(Dollars in millions)

	September 30, 2001	2000
Gross balance at beginning of year	**$ 47**	$ 43
Financial assistance payments-- current year	**4**	4
Subtotal	**51**	47
Allowance for uncollectible amounts	**(51)**	(47)
Net balance at end of year	**$ 0**	$ 0

The losses from financial assistance reflected in the Statements of Operations and Changes in Net Position include annual changes in the estimated present value of nonrecoverable future financial assistance and assistance granted that was not previously accrued.

PRESENT VALUE OF NONRECOVERABLE FUTURE FINANCIAL ASSISTANCE AND LOSSES FROM FINANCIAL ASSISTANCE
(Dollars in millions)

	September 30, 2001	2000
Balance at beginning of year	**$414**	$479
Changes in allowance:		
Losses from financial assistance	**269**	26
Financial assistance granted (previously accrued)	**(4)**	(91)
Balance at end of year	**$679**	$414

Note 6 -- Accounts Payable and Accrued Expenses

The following table itemizes accounts payable and accrued expenses reported in the Statements of Financial Condition:

ACCOUNTS PAYABLE AND ACCRUED EXPENSES
(Dollars in millions)

	September 30,	
	2001	2000
Annual leave	**$ 4**	$ 4
Collateral held for loaned securities	**121**	115
Other payables and accrued expenses	**28**	26
Accounts payable and accrued expenses	**$153**	$145

Note 7 -- Contingencies

There are a number of large single-employer plans that may terminate. In addition, there are some multiemployer plans that may require future financial assistance. The amounts disclosed below represent the Corporation's best estimates given the inherent uncertainties about these plans.

PBGC estimated that total unfunded vested benefits on termination of single-employer plans that represented reasonably possible exposure as of September 30, 2001, was approximately $11 billion. This exposure was principally in primary metals and fabricated metal products, air transportation, general merchandise stores, paper and allied products, stone, clay, glass and concrete products, electronic and other electrical equipment and transportation equipment industries. PBGC calculated this estimate as in previous years by using data obtained from filings with the government and corporate annual reports for fiscal years ending in calendar 2000. The Corporation adjusted the value reported for liabilities to the December 31, 2000, PBGC select interest rate of 6.40%. When available, data were adjusted to a consistent set of mortality assumptions. The Corporation eliminated plans not insured by PBGC from the data. PBGC made no provision for the possible failure of the plan sponsor to make subsequent contributions or for plan liabilities that would be incurred after that date.

PBGC included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 5) for multiemployer plans that PBGC estimated may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $2 million.

The Corporation calculated the future financial assistance liability for each multiemployer plan identified as probable or reasonably possible as the present value of guaranteed future benefit and expense payments net of any future contributions or withdrawal liability payments as of the later of September 30, 2001, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 2001, using interest only. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts require consideration of many complex factors. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

PBGC used select and ultimate interest rate assumptions of 6.70% for the first 20 years after the valuation date and 5.25% thereafter. The Corporation also used the 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 15 years to 2009 using Scale AA.

Note 8 -- Commitments

PBGC leases its office facility under a commitment that began on December 11, 1993, and expires December 10, 2008. The lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2010. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 2001, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS
(Dollars in millions)

Years Ending September 30,	Operating Leases
2002	$12.4
2003	12.3
2004	12.6
2005	12.7
2006	13.0
Thereafter	30.2
Minimum lease payments	$93.2

Lease expenditures were $12.1 million in 2001 and $11.8 million in 2000.

Note 9 -- Premiums

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid amount for late payment or underpayment of premiums. Late payment interest continues to accrue until the premium and the interest due are paid, while the amount of penalty that can be levied is capped at 100 percent of the premium late payment or underpayment. Annual premiums for the single-employer program are $19 per participant for a fully funded plan. Underfunded single-employer plans pay an additional variable-rate charge, based on funding levels. The multiemployer premium is $2.60 per participant.

Note 10 -- Losses (Credits) from Completed and Probable Terminations

Amounts reported as losses are the present value of future benefits (including amounts owed under Section 4022(c)) less related plan assets and the present value of expected recoveries from sponsors. The following table details the components that make up the losses:

LOSSES (CREDITS) FROM COMPLETED AND PROBABLE TERMINATIONS -- SINGLE-EMPLOYER PROGRAM
(Dollars in millions)

	For the Years Ended September 30, 2001			2000		
	New Terminations	**Changes in Prior Year Terminations**	**Total**	New Terminations	Changes in Prior Year Terminations	Total
Present value of future benefits	**$3,726**	**$ (37)**	**$3,689**	$439	$ (42)	$ 397
Less plan assets	**2,624**	**143**	**2,767**	302	(9)	293
Plan asset insufficiency	**1,102**	**(180)**	**922**	137	(33)	104
Less estimated recoveries	**0**	**(182)**	**(182)**	11	163	174
Subtotal	**$1,102**	**$ 2**	**1,104**	$126	$(196)	(70)
Settlements and judgments			**91**			176
Loss (credit) on probables			**(490)***			(186)*
Total			**$ 705**			$ (80)

* See Note 4

Note 11 -- Financial Income

The following table details the combined financial income by type of investment for both the single-employer and multiemployer programs:

FINANCIAL INCOME
(Dollars in millions)

	For the Years Ended September 30, 2001	2000
Fixed-income securities:		
Interest earned	**$ 885**	$ 826
Realized gain (loss)	**225**	(73)
Unrealized gain	**655**	397
Total fixed-income securities	**1,765**	1,150
Equity securities:		
Dividends earned	**26**	33
Realized gain (loss)	**(458)**	207
Unrealized gain (loss)	**(2,078)**	1,071
Total equity securities	**(2,510)**	1,311
Other income (loss)	**(3)**	1
Total financial income (loss)	**$ (748)**	$2,462

Note 12 -- Employee Benefit Plans

All permanent full-time and part-time PBGC employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Full-time and part-time employees with less than five years service under CSRS and hired after December 31, 1983, are automatically covered by both Social Security and FERS. Employees hired before January 1, 1984, participate in CSRS unless they elected and qualified to transfer to FERS.

The Corporation's contribution to the CSRS plan, for both 2001 and 2000, was 8.51 percent of base pay for those employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 10.7 percent of base pay for both 2001 and 2000. In addition, for FERS-covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to $8 million in 2001 and 2000.

These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to PBGC employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM accounts for federal health and life insurance programs for those eligible retired PBGC employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

Note 13 -- Cash Flows

The following is a reconciliation between the net income as reported in the Statements of Operations and Changes in Net Position and net cash provided by operating activities as reported in the Statements of Cash Flows.

RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES
(Dollars in millions)

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
	2001	2000	**2001**	2000	**2001**	2000
Net income (loss)	**$(1,972)**	$ 2,666	**$(151)**	$ 68	**$(2,123)**	$ 2,734
Adjustments to reconcile net income to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	**1,712**	(1,567)	**(48)**	(20)	**1,664**	(1,587)
Net (income) loss of terminated plans pending trusteeship	**5**	(1)	**0**	0	**5**	(1)
Losses (credits) on completed and probable terminations	**705**	(80)	**0**	0	**705**	(80)
Actuarial charges	**1,082**	453	**1**	0	**1,083**	453
Benefit payments - trusteed plans	**(1,027)**	(895)	**(1)**	(1)	**(1,028)**	(896)
Settlements and judgments	**(156)**	(162)	**0**	0	**(156)**	(162)
Cash received from plans upon trusteeship	**592**	32	**0**	0	**592**	32
Pretermination payments	**(11)**	(25)	**0**	0	**(11)**	(25)
Receipts from settlements	**24**	26	**0**	0	**24**	26
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	**(31)**	69	**1**	(1)	**(30)**	68
(Increase) decrease in present value of nonrecoverable future financial assistance			**265**	(65)	**265**	(65)
Decrease in unearned premiums	**(15)**	(2)	**(1)**	0	**(16)**	(2)
Increase (decrease) in accounts payable	**3**	(24)	**0**	0	**3**	(24)
Net cash provided (used) by operating activities	**$ 911**	$ 490	**$ 66**	$(19)	**$ 977**	$ 471

Note 14 -- Litigation

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. Management believes that any losses from litigation will not have a material impact on the financial statements.

Note 15 -- Subsequent Event

Subsequent to September 30, 2001, business and financial conditions significantly deteriorated for some sponsors of large single-employer plans that may terminate. Consequently, PBGC reclassified the likely termination of these pension plans to probable. Had these plan sponsor events occurred prior to year-end, PBGC's financial statements would reflect an increase in the Net loss of $1.9 billion and a decrease in the Net position of the same amount.

Additionally, PBGC received notices that two multiemployer plans were terminated by amendment in January 2002. Had these events occurred prior to September 30, 2001, PBGC's financial statements would reflect a decrease in the Net loss of $18 million and an increase in the Net position of the same amount.

Section V

Agency Comments

Pension Benefit Guaranty Corporation
1200 K Street, NW, Washington, DC 20005-4026

Office of the Executive Director

MAR 2 0 2002

TO: Wayne Robert Poll
Inspector General

FROM: Steven A. Kandarian *Steven A. Kandarian*
Executive Director

SUBJECT: Comments on Audit of the PBGC Fiscal Year Years 2001 and 2000 Financial Statements (2002-3/23157-2)

We appreciate the Office of Inspector General's work on the subject report and the opportunity to comment. It is especially encouraging to note the long-term progress that PBGC has made in its financial reporting. Today, the Fiscal Year 2001 reports marked the 9th consecutive year of reliable data and unqualified opinions. This is a result of working together with your office to ensure sound financial reporting.

It is also gratifying to see that the Corporation has made substantive progress by eliminating one reportable condition and moving forward on the remaining two. We anticipate working with your office to make further progress in these important areas.

Again, we appreciate your support and look forward to working with you.

cc: Hazel Broadnax
Joseph Grant
John Seal
Ted Winter