



OFFICE OF INSPECTOR GENERAL
AUDIT REPORT

**Audit of the Pension Benefit Guaranty
Corporation's
Reclassified Financial Schedules
for Fiscal Year 2019**


**Report No. AUD-2020-3
November 19, 2019**

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November 19, 2019

TO: Patricia Kelly
Chief Financial Officer

FROM: Brooke Holmes 
Assistant Inspector General for Audits, Evaluations, and Reviews

SUBJECT: Audit of the Pension Benefit Guaranty Corporation's Reclassified
Financial Schedules for Fiscal Year 2019 (AUD-2020-3/FA-19-137-2)

I am pleased to transmit the report prepared by CliftonLarsonAllen LLP (CLA), an independent public accounting firm, resulting from their audit of the PBGC Reclassified Financial Schedules for 2019. CLA conducted the audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, and the Office of Management and Budget Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements." The Reclassified Financial Schedules have been prepared for the purpose of complying with the requirements of the U.S. Department of Treasury's Financial Manual, Volume I, Part 2, Chapter 4700 for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*. It is not intended to be a complete presentation of PBGC's financial statements.

CLA issued an unmodified opinion on the Reclassified Financial Schedules. CLA is responsible for the attached auditors' report and conclusions expressed. We do not express an opinion on PBGC's Reclassified Financial Schedules, conclusions on the effectiveness of the internal control over financial reporting process for the Reclassified Financial Schedules or conclusions on compliance with law and regulations.

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

cc: Gordon Hartogensis David Foley
Alice Maroni Karen Morris
Kristin Chapman Andy Banducci
Robert Scherer Frank Pace
Patricia Kelly Judith Starr
Theodore Winter Michael Rae

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Audit of the Pension Benefit Guaranty

Reclassified Financial Schedules

Fiscal Year 2019

Audit Report AUD-2020-3/FA-19-137-2

Independent Auditors' Report on

Reclassified Financial Schedules

Fiscal Year 2019

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INDEPENDENT AUDITORS' REPORT ON RECLASSIFIED FINANCIAL SCHEDULES

Board of Directors, Management
and Inspector General
Pension Benefit Guaranty Corporation

We have audited the accompanying Reclassified Financial Schedules of Pension Benefit Guaranty Corporation (PBGC) which comprise the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reclassified Schedule of Assets, Liabilities and Net Position as of September 30, 2019, and the Reclassified Schedule of Net Cost and Reclassified Schedule of Operations and Changes in Net Position for the year then ended, and the related note to the schedules (herein referred to as the "reclassified financial schedules"). The note to the financial schedules comprise the following:

- o Accompanying Additional Note 1 [(except for the information as of and for the year ended September 30, 2019)].

Management's Responsibility for the Reclassified Financial Schedules

PBGC's management is responsible for the preparation and fair presentation of these reclassified financial schedules in accordance with the requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 (*TFM 2-4700*) for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the reclassified financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these reclassified financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the reclassified financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the reclassified financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the reclassified financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the reclassified financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we express no such opinion.

**INDEPENDENT AUDITORS' REPORT
ON RECLASSIFIED FINANCIAL SCHEDULES-CONTINUED**

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the reclassified financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on the Reclassified Financial Schedules

In our opinion, the reclassified financial schedules referred to above present fairly, in all material respects, the financial position of the Pension Benefit Guaranty Corporation as of September 30, 2019, and its net costs and changes in net position for the year then ended in accordance with the requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 (*TFM 2-4700*).

Emphasis of Matter

As discussed in Additional Note 1 to the reclassified financial schedules, the accompanying reclassified financial schedules were prepared in accordance with the requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 (*TFM 2-4700*) for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of the balance sheet of PBGC as of September 30, 2019, and the related statements of operations, net position, and cash flows of the Single-Employer and Multiemployer Program Funds administered by the PBGC (hereinafter referred to as "general-purpose financial statements"). Our opinion is not modified with respect to this matter.

Other Matters

Opinion on the General-Purpose Financial Statements

We have audited, in accordance with auditing standards generally accepted in the U.S., the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United State; and OMB Bulletin 19-03, the general-purpose financial statements of PBGC as of and for the years ended September 30, 2019 and 2018, and our report thereon, dated November 15, 2019, expressed an unmodified opinion on those financial statements.

Our report on the general-purpose financial statements contained an emphasis of a matter reporting, which indicated that by law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2019, PBGC reported in its financial statements a net credit position (assets in excess of liabilities) in the Single-Employer Program Fund of \$8.7 billion and a net deficit position (liabilities in excess of assets) in the Multiemployer Program Fund of \$65 billion. As discussed in Note 9 to the financial statements, the potential losses from single-employer and multiemployer plans whose termination is reasonably possible as a result of unfunded vested benefits are estimated to be \$155 billion and \$11 billion, respectively. Management calculated the potential losses from single employer plans whose termination is reasonably possible based on the most recent data available from filings and submissions for plan years ended on or after December 31, 2017, and adjusted the value reported for liabilities to the estimated balance as of December 31, 2018, using actuarial assumptions. PBGC did not adjust the estimate for economic conditions that occurred between December 31, 2018 and September 30, 2019, and as a result, the actual loss for the Single-Employer Program as of September 30, 2019, could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified

INDEPENDENT AUDITORS' REPORT ON RECLASSIFIED FINANCIAL SCHEDULES-CONTINUED

as reasonably possible (or from other plans not yet identified as potential losses) as a result of deteriorating economic conditions, the insolvency of a large plan sponsor, or other factors. PBGC has been able to meet its short-term benefit obligations; however, as discussed in Note 1 to the financial statements, management believes that barring changes, the Multiemployer program will with certainty not be able to fully satisfy PBGC's long-term obligations to plan participants. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin 19-03, we have also issued a report dated November 15, 2019, which presents our opinion on the effectiveness of PBGC's internal control over financial reporting and the results of our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters that are required to be reported under *Government Auditing Standards*. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin 19-03 in considering PBGC's internal control and compliance, and should be read in conjunction with this report in considering the results of our audits of the reclassified financial schedules.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our audit of the financial statements of PBGC, as of and for the year ended September 30, 2019, disclosed the following two significant deficiencies, and one instance of potential noncompliance, described below, that are required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin 19-03:

Significant Deficiencies

1. Controls over the Actuarial Estimates

During FY 2019, the Office of Benefits Administration (OBA) continued to implement strategic internal initiatives to strengthen its risk-based corrective actions to mitigate control deficiencies over the PVFB liability. Although progress has been made to controls over the calculation of the PVFB liability, certain conditions remain that require management's concerted effort for improvement. Deficiencies were also noted surrounding the actuarial assumptions used in the valuation of the PVFB and PV NRFFA liabilities, as well as the contingency criteria over the Multiemployer program.

2. Access Controls and Configuration Management

PBGC continued to implement various tools and processes to establish a more coherent environment for access controls and configuration management security. Weaknesses in the PBGC IT environment continue to contribute to deficiencies in system configurations, access controls, and account management controls.

Noncompliance

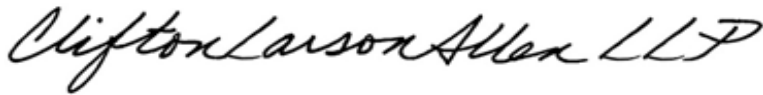
Potential Antideficiency Violation: PBGC maintains operating leases for all office site locations and its Continuity of Operations Plan (COOP) site. In the prior years, we reported that PBGC did not

**INDEPENDENT AUDITORS' REPORT
ON RECLASSIFIED FINANCIAL SCHEDULES-CONTINUED**

record its full contractual obligation under all of its multiyear lease arrangements. These instances were reported as a potential violation. In FY 2017, PBGC's General Counsel reported the violation over its headquarters leases to the Office of Management and Budget (OMB). In FY 2019, PBGC received revisions from OMB regarding the draft letters detailing the violations that occurred in FYs 2004 and 2005. PBGC is currently waiting on the letters to complete the final clearance process at OMB in order to report the violations to the President, the Congress, and the Comptroller General in accordance with OMB A-11 Section 145.7.

Restriction on Use of the Report on the Reclassified Financial Schedules

This report is intended solely for the information and use of PBGC's management, the PBGC Office of Inspector General, and the U.S. Government Accountability Office in connection with the preparation and audit of the *Financial Report of the U.S. Government* and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Greenbelt, Maryland
November 19, 2019