



OFFICE OF INSPECTOR GENERAL  
**AUDIT REPORT**

**Fiscal Year 2019  
Financial Statement Audit  
Management Letter Report**

**Report No. AUD-2020-6  
January 9, 2020**

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January 9, 2020

MEMORANDUM

TO: Gordon Hartogensis  
Director

Patricia Kelly  
Chief Financial Officer

FROM: Robert A. Westbrooks  
Inspector General *Robert A. Westbrooks*

SUBJECT: Fiscal Year 2019 Financial Statements Audit Management Letter  
(AUD-2020-6)

I am pleased to transmit the attached Fiscal Year 2019 Financial Statement Audit Management Letter Report resulting from the Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2019 and 2018 Financial Statements (AUD-2020-2/FA-19-137-1).

We contracted with CliftonLarsonAllen LLP (CLA), an independent certified public accounting firm, to perform the audit. 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."

This management letter summarizes CLA's findings and recommendations related to internal control deficiencies and other matters. The issues noted in this report are not significant; and therefore, the deficiencies were not required to be reported in the Independent Auditor's Report.

CLA is responsible for the attached management letter dated January 8, 2020. We do not express opinions on PBGC's financial statements, internal control, or conclusions with laws and regulations.

During FY2019 audit, CLA has not identified any new internal control deficiencies of less significant matters to be included in this report. CLA, as part of their work, followed up on open recommendations included in the previous years' management letters and

closed one recommendation. This year the OIG and CLA will continue working with management to discuss and evaluate the status of three remaining prior years' recommendations.

In your December 19, 2019 response to a draft of the Management Letter Report, you indicated that PBGC management generally agreed with the prior years' open recommendations and provided planned corrective actions with estimated completion dates. Responses to individual prior years' recommendations have been incorporated into the Management Response section of Attachment IV.

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

cc: Alice Maroni  
David Foley  
Kristin Chapman  
Karen Morris  
Andy Banducci  
Robert Scherer  
Paul Chalmers  
Theodore Winter  
Frank Pace



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

We have audited the financial statements of the Pension Benefit Guaranty Corporation (PBGC or the Corporation) as of and for the year ended September 30, 2019, and PBGC's internal control over financial reporting as of September 30, 2019, and have issued our reports<sup>1</sup> thereon dated November 15, 2019. In planning and performing our audits of the financial statements and internal control over financial reporting of PBGC, in accordance with auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB), we considered PBGC's internal controls as a basis for designing audit procedures that are appropriate for the purpose of expressing our opinions on the financial statements and internal control over financial reporting. Our opinion, included in the Annual Report, was that PBGC maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019. Our opinion on internal control is based on criteria established under 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control*, as amended (OMB Circular A-123). We reported a potential Antideficiency violation in connection with PBGC not recording its full contractual obligation under its multiyear headquarters lease arrangements.

We previously provided a written communication dated November 15, 2019, which lists the significant deficiencies identified during our audits of the financial statements of PBGC as of and for the year ended September 30, 2019, and PBGC's internal control over financial reporting as of September 30, 2019. This letter does not affect that communication.

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

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

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<sup>1</sup> Audit of the Pension Benefit Guaranty Corporation Fiscal Year 2019 and 2018 Financial Statements – AUD-2020-2/FA-19-137-1  
<https://oig.pbgc.gov/summaries/AUD-2020-2.html>

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

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Greenbelt, Maryland  
November 15, 2019

**I. ACRONYMS**

|       |   |
|-------|---|
|       |   |
| BD    | Budget Department   |
| CFS   | Consolidated Financial System                               |
| CLA   | CliftonLarsonAllen LLP                                      |
| FMFIA | Federal Managers' Financial Integrity Act of 1982           |
| FY    | Fiscal Year   |
| NFR   | Notice of Findings and Recommendations                      |
| NRAD  | Office of Negotiations and Restructuring Actuarial Division |
| OIG   | Office of Inspector General                                 |
| OMB   | Office of Management and Budget                             |
| PBGC  | Pension Benefit Guaranty Corporation                        |

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## II. EXECUTIVE SUMMARY

As part of the fiscal year (FY) 2019 financial statements audit, we tested internal controls over financial reporting and compliance with laws, regulations, contracts and grant agreements as of September 30, 2019, based on the criteria contained in the FMFIA and OMB Circular A-123. We did not examine all internal controls relevant to operating objectives as broadly defined by FMFIA and OMB Circular A-123, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). Further, the criteria used to benchmark the testing and to reach the conclusions contained in this report also included PBGC standards, procedures, and policies, along with government agency guidance published by the National Institute of Standards and Technology (NIST), and through Presidential Decision Directives. Refer to Section VII for a listing of Federal criteria documented in the report.

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

| Type  | NRAD            | BD              | Total           |
|---|-----------------|-----------------|-----------------|
| Open recommendations as of<br>September 30, 2018                    | 1               | 3               | 4               |
| Recommendations closed during FY 2019<br>audit cycle                | <u>(1)</u>      | <u>(0)</u>      | <u>(1)</u>      |
| Total prior years' open recommendations<br>as of September 30, 2019 | 0               | 3               | 3               |
| Add: new FY 2019 recommendations                                    | <u>0</u>        | <u>0</u>        | <u>0</u>        |
| <b>Total open recommendations as of<br/>September 30, 2019</b>      | <u><u>0</u></u> | <u><u>3</u></u> | <u><u>3</u></u> |

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### **III. FISCAL YEAR 2019 FINDINGS AND RECOMMENDATIONS**

No new findings and recommendations in FY 2019.

#### IV. PRIOR YEARS' RECOMMENDATIONS

| PRIOR YEARS' RECOMMENDATIONS  | RESULTS OF FY 2019 TESTING   | TARGETED COMPLETION DATE   |
|---|--|--|
| <p><b>Title: Budget</b></p> <p><b>OIG Control Number: BD-04</b></p> <p>Draft and submit for OMB approval funds control regulations that incorporate the required elements as described in OMB A-11, Appendix H.</p>   | <p><b>OIG Control Number: BD-04</b></p> <p>Management indicated that corrective actions to address the prior year recommendation were initiated but have not been completed; therefore, the recommendation will remain open.</p> | <p><b>OIG Control Number: BD-04</b></p> <p><b>Status:</b> A funds control demonstration with OMB representatives was held on April 29, 2019, per OMB's request. OMB's representatives stated that they were satisfied that the Budget Department (BD) had proper funds controls in place and recommended that the PBGC's Funds Control Directive be updated in accordance with OMB Circular A-11, Appendix H. BD is in the process of finalizing edits to the Funds Control Directive and will seek OMB approval over the next several months.</p> <p><b>Targeted Completion Date:</b> June 30, 2020</p> |
| <p><b>Title: Budget</b></p> <p><b>OIG Control Number: BD-05</b></p> <p>Develop and maintain a log to record and monitor all realignment of funds requests entered into the Consolidated Financial System (CFS) by other departments. The log should be reviewed and reconciled to the realignment of funds requests entered into CFS.</p> | <p><b>OIG Control Number: BD-05</b></p> <p>Management indicated that corrective actions to address the prior year recommendation were initiated but have not been completed; therefore, the recommendation will remain open.</p> | <p><b>OIG Control Number: BD-05</b></p> <p><b>Status:</b> BD has been working with the Sharepoint team to develop a new Unfunded Request and Reallocation solution that will include a log for all requests. The initial rollout date was October 1, 2019, but delays have pushed it to Quarter 2 of FY 2020. Because there may be further updates/enhancements needed and we need to include adequate cycle time.</p> <p><b>Targeted Completion Date:</b> June 30, 2020</p>   |

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| PRIOR YEARS' RECOMMENDATIONS   | RESULTS OF FY 2019 TESTING   | TARGETED COMPLETION DATE   |
|--|--|--|
| <p><b>Title: Budget</b></p> <p><b>OIG Control Number: BD-06</b></p> <p>Develop a procedures manual detailing the process for processing and authorizing realignment of funds requests. The procedures manual should be reviewed and approved by the Budget Director.</p> | <p><b>OIG Control Number: BD-06</b></p> <p>Management indicated that corrective actions to address the prior year recommendation were initiated but have not been completed; therefore, the recommendation will remain open.</p> | <p><b>OIG Control Number: BD-06</b></p> <p><b>Status:</b> BD has been diligently working to submit an updated procedures manual for closure. However, recently Corporate Controls and Reviews Department (CCRD) had a meeting with the Office of Inspector General (OIG) and the OIG stated that BD-05 (an IG finding regarding a reallocation log) and BD-06 were inextricably linked. Because of that, this finding cannot be closed until the new reallocation log is fully operational, there has been adequate cycle time, and sample transactions can be pulled.</p> <p><b>Targeted Completion Date:</b> June 30, 2020</p> |

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**V. RECOMMENDATIONS CLOSED IN FISCAL YEAR 2019 AUDIT CYCLE**

| <b><u>OIG Control Number</u></b> | <b><u>Date Closed</u></b> | <b><u>Original Report Number</u></b> |
|----------------------------------|---------------------------|--------------------------------------|
| NRAD-07                          | 11/27/2019                | AUD-2017-6/FA-16-110-5               |

**VI. OPEN RECOMMENDATIONS AS OF NOVEMBER 15, 2019**

| <b><u>OIG Control Number</u></b> | <b><u>Original Report Number</u></b> |
|----------------------------------|--------------------------------------|
| <b><u>Prior Year:</u></b>        |                                      |
| BD-04                            | AUD-2017-6/FA-16-110-5               |
| BD-05                            | AUD-2017-6/FA-16-110-5               |
| BD-06                            | AUD-2017-6/FA-16-110-5               |

**VII. CRITERIA**

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

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

OMB Circular A-11, *Preparation, Submission and Execution of the Budget*

## VIII. MANAGEMENT RESPONSE



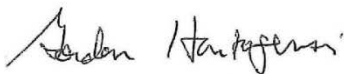
Pension Benefit Guaranty Corporation  
1200 K Street, N.W., Washington, D.C. 20005-4026

Office of the Director

NOV 15 2019

### MEMORANDUM

To: Robert A. Westbrook  
Inspector General

From: Gordon Hartogensis   
Director

Subject: Response to the Independent Auditor's Combined Audit Report for the  
FY 2019 Financial Statement Audit

Thank you, once again this year for the opportunity to comment on the Office of Inspector General's FY 2019 audit results regarding the agency's financial statements, internal controls, and compliance with laws and regulations. Given that PBGC protects the pensions of millions of Americans, it is especially noteworthy that our financial statements have once again received an unmodified opinion, as have our internal controls over financial reporting.

We agree with your observations on internal controls and are fully committed to addressing the issues noted in this year's report. Work remains to be done, and as management completes it, we will certainly keep your office informed. Your attention to reviewing our corrective actions is especially appreciated.

cc:

Patricia Kelly  
Kristin Chapman  
Andy Banducci  
David Foley  
Alice Maroni  
Karen Morris  
Ann Orr  
Robert Scherer  
Judith Starr  
Frank Pace  
Theodore J. Winter

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

Office of the Director

DEC 19 2019

To: Robert Westbrooks  
Inspector General

From: Gordon Hartogensis  
Director

Subject: Response to Draft FY 2019 Management Letter Report

PBGC management appreciates the opportunity to comment on the draft management letter report issued as part of the FY 2019 financial statement audit.

The draft report does not contain any new recommendations for FY 2019. For your convenience, we are separately providing updates regarding prior year recommendations via an electronic attachment based on your report's format.

Please contact Frank Pace on ext. 3595, should you have any questions.

cc:

Patricia Kelly, Chief Financial Officer  
Kristin Chapman, Chief of Staff  
Andrew Banducci, Chief Policy Officer  
David Foley, Chief of Benefits Administration  
Alice Maroni, Chief Management Officer  
Karen Morris, Chief of Negotiations and Restructuring  
Robert Scherer, Chief Information Officer  
Judith Starr, General Counsel  
Frank Pace, Corporate Controls and Reviews Department