



Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

**Audit of the Pension Benefit Guaranty Corporation's
Financial Statements Closing Package
for Fiscal Year 2016 and 2015**

November 16, 2016

AUD 2017-5/FA-16-110-4

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Office of Inspector General
Pension Benefit Guaranty Corporation

November 16, 2016

TO: Thomas Reeder
Director

Patricia Kelly
Chief Financial Officer

FROM: Nina Murphy 
Assistant Inspector General for Audits

SUBJECT: Audit of the Pension Benefit Guaranty Corporation's Financial Statements Closing Package for Fiscal Years 2016 and 2015 (AUD-2017-5/FA-16-110-4)

I am pleased to transmit the report prepared by CliftonLarsonAllen LLP resulting from their audit of the PBGC Financial Statements Closing Package for 2016 and 2015. This report has 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 and the Treasury's Supplemental Guidance to TFM Volume I, Part 2, Chapter 4700 dated October 17, 2016 (Supplemental Guidance) 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.

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

cc: Thomas Reeder	Patricia Kelly
Alice Maroni	Cathleen Kronopolus
Ann Orr	Karen Morris
Michael Rae	Robert Scherer
Judith Starr	Theodore Winter
Marty Boehm	

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Audit of the Pension Benefit Guaranty
Corporation's Financial Statements Closing
Package for Fiscal Year 2016 and 2015

Audit Report AUD-2017-5/ FA-16-110-4

**Independent Auditors' Report on
Financial Statements Closing Package
For Fiscal Year 2016 and 2015**

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**INDEPENDENT AUDITORS' REPORT
ON CLOSING PACKAGE FINANCIAL STATEMENTS**

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

Report on the Closing Package Financial Statements

We have audited the accompanying Closing Package Financial Statement Report (herein referred to as the closing package financial statements) of Pension Benefit Guaranty Corporation (PBGC) which comprise the:

- Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reconciliation Report-Reclassified Balance Sheet as of September 30, 2016;
- Related GTAS Reconciliation Report-Reclassified Statement of Net Cost and Statement of Changes in Net Position, for the year then ended;
- Notes to the financial statements, which includes the:
 - GTAS Closing Package Lines Loaded Report
 - Financial Report (FR) Notes Report (except for the information in the FR Notes Report entitled "2015-September", "Prior Year", "PY", "previously reported", "Line item changes", and "Threshold" and the information as of and for the year ended September 30, 2015, in the "Text Data" of the FR Notes Report)
 - Accompanying Additional Note 29 (except for the information as of and for the year ended September 30, 2015).

Management's Responsibility for the Closing Package Financial Statements

PBGC's management is responsible for the preparation and fair presentation of these closing package financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.). This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the closing package financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these closing package financial statements based on our audit. We conducted our audits 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 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the closing package financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the closing package financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the closing package financial statements, 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

INDEPENDENT AUDITORS' REPORT ON CLOSING PACKAGE FINANCIAL STATEMENTS (Continued)

closing package financial statements 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. 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 closing package financial statements.

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

Opinion on the Closing Package Financial Statements

In our opinion, the closing package financial statements referred to above present fairly, in all material respects, the financial position of the Pension Benefit Guaranty Corporation as of September 30, 2016, and its net costs and changes in net position for the year then ended in conformity with accounting principles generally accepted in the U.S.

Emphasis of Matter

As discussed in Additional Note 29 to the closing package financial statements, the accompanying closing package financial statements were prepared to comply with the requirements of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 and the Treasury's Supplemental Guidance to TFM Volume I, Part 2, Chapter 4700 dated October 17, 2016 (Supplemental Guidance) 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, 2016, 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") for the year then ended. Our opinion is not modified with respect to this matter.

Other Matters

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* and OMB Bulletin 15-02, the general-purpose financial statements of PBGC as of September 30, 2016 and 2015, and our report thereon, dated November 15, 2016, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that the information included in the Text Data of the FR Notes Report (except for the information as of and for the year ended September 30, 2015) and the information in Other Data Report No. 15, (except for the information in Other Text Data of Other Data Report No. 15) which are discussed below, be presented to supplement the closing package financial statements. Such information, although not a part of the closing package financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the closing package financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance

INDEPENDENT AUDITORS' REPORT ON CLOSING PACKAGE FINANCIAL STATEMENTS (Continued)

with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the closing package financial statements, and other knowledge we obtained during our audits of the closing package financial statements. Although our opinion on the closing package financial statements is not affected, Other Data Reports No. 15 contain material departures from the prescribed guidelines because the information presents information required for the *Financial Report of the U.S. Government* and not the required information for PBGC. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, 2016, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of \$21 billion and \$59 billion, respectively. As discussed in Note 9 of the general purpose 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 \$223 billion and \$19 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, 2014, and adjusted the value reported for liabilities to the estimated balance as of December 31, 2015, using actuarial assumptions. PBGC did not adjust the estimate for economic conditions that occurred between December 31, 2015 and September 30, 2016, and as a result, the actual loss for the Single-Employer Program as of September 30, 2016, could be substantially different. In addition, PBGC's net deficit and long-term viability could be further impacted by losses from plans classified 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 neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the closing package financial statements as a whole. The information in the sections included in the Other Data Report, No. 15; the information entitled "2015-September", "Prior Year", "PY", "Previously Reported", and "Line Item Changes" in the FR Notes Report, the information entitled "Threshold" in the FR Notes Report Section Nos. 3, 4A, 6, 10B, 14, 15, and 19; and the Agency Financial Report to Closing Package Reconciliation Template are presented for purposes of additional analysis in accordance with TFM Chapter 4700 and the Supplemental Guidance and are not a required part of the closing package financial statements. This information has not been subjected to the auditing procedures applied in the audit of the closing package financial statements and, accordingly, we do not express an opinion or provide any assurances on it.

Restriction on Use of the Report on the Closing Package Financial Statements

This report is intended solely for the information and use of PBGC's management, the PBGC Office of Inspector General, the U.S. Department of the Treasury, OMB, and the U.S. Government Accountability Office in connection with the preparation and audit of the *Financial Report of the U.S.*

INDEPENDENT AUDITORS' REPORT ON CLOSING PACKAGE FINANCIAL STATEMENTS (Continued)

Government and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin 15-02, we have also issued a report dated November 15, 2016, which presents our opinion on management's assertion about 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, and grant agreements that are required to be reported under *Government Auditing Standards*. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin 15-02 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 closing package financial statements.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in their normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or 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, 2016, disclosed the following significant deficiencies, and a noncompliance, described below, that are required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin 15-02:

Significant Deficiencies

1. Controls over the Present Value of Future Benefit Liability

During FY 2016, the Office of Benefits Administration (OBA) made progress in their remediation efforts, to correct long-standing deficiencies related to controls over the calculation of the PVFB liability. However, the results of our FY 2016 procedures reveal controls over the calculation of the PVFB liability requiring management's continued focus. Similar to prior years, the control deficiencies include inaccurate calculation of plan participants' benefits and inaccurate use of plan data provisions.

2. Present Value of Nonrecoverable Future Financial Assistance (PV NRFFA)

Lack of a quality control review process contributed to PBGC's failure to use most current and relevant data to update its actuarial assumptions and errors in the data inputs used to calculate the PV NRFFA liability.

3. Entity-wide Security Program Planning and Management

PBGC made significant progress in addressing the Corporation's entity-wide security program planning and management control deficiencies. However, PBGC has not fully implemented certain components of its entity-wide information security risk management program.

INDEPENDENT AUDITORS' REPORT ON CLOSING PACKAGE FINANCIAL STATEMENTS (Continued)

4. Access Controls and Configuration Management

PBGC also made progress in addressing access controls and configuration management deficiencies noted in prior years. However, this progress did not fully resolve security weaknesses. Access controls and configuration management weaknesses remain a systemic problem throughout PBGC. Weaknesses in the PBGC IT environment continue to contribute to deficiencies in system configuration, segregation of duties, and role-based access controls based on least privilege.

Noncompliance

The results of our tests for the year ended September 30, 2016, disclosed instances of noncompliance or other matters that is required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the U.S.

- Antideficiency Violation: PBGC reported a violation of United States Code (U.S.C.), Title 31, Section 1342 in connection with voluntary services of an independent subcontractor.
- Potential Antideficiency Violation: PBGC maintains operating leases for all office site locations and its Continuity of Operations Plan (COOP) site. However, PBGC did not record its full contractual obligation under its current multiyear lease arrangements.

Report on Internal Control over Financial Reporting Specific to the Closing Package Financial Statement

In planning and performing our audit of the closing package financial statements as of and for the year ended September 30, 2016, we also considered PBGC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the closing package financial statements, but not for the purpose of expressing an opinion of the effectiveness of PBGC's internal control. Accordingly, we do not express an opinion on the effectiveness of PBGC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Report on Compliance and Other Matters Specific to the Closing Package Financial Statements

As part of obtaining reasonable assurance about whether PBGC's closing package financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of TFM Chapter 4700 and the Supplemental Guidance, noncompliance with which could have a material effect on the determination of closing package financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit of the closing package financial statements, and accordingly, we do not express such an opinion. The results of our tests of compliance with TFM Chapter 4700 and the Supplemental Guidance disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**INDEPENDENT AUDITORS' REPORT ON
CLOSING PACKAGE FINANCIAL STATEMENTS (Continued)**

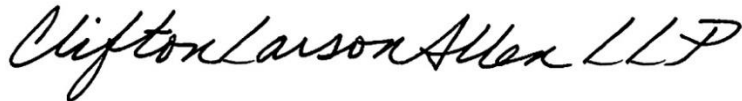
Agency Comments and our Evaluation

Management concurred with our report.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication provided in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PBGC's internal control or on compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control and compliance with provisions of laws and regulations, contracts, and grant agreements that have a material effect on the closing package financial statements. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

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

Calverton, Maryland
November 16, 2016