



OFFICE OF INSPECTOR GENERAL  
**AUDIT REPORT**

**Audit of the Pension Benefit Guaranty  
Corporation's  
Financial Statements Closing Package  
for Fiscal Year 2017 and 2016**

**Report No. AUD-2018-5  
November 16, 2017**

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Office of Inspector General  
Pension Benefit Guaranty Corporation

November 16, 2017

TO: Patricia Kelly  
Chief Financial Officer

FROM: Nina Murphy   
Assistant Inspector General for Audits, Evaluations, and Reviews

SUBJECT: Audit of the Pension Benefit Guaranty Corporation's Financial Statements Closing Package for Fiscal Years 2017 and 2016 (AUD -2018-5/ FA-17-119 -2)

I am pleased to transmit the report prepared by CliftonLarsonAllen, LLP resulting from their audit of the PBGC Financial Statements Closing Package for 2017 and 2016. 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 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: Tom Reeder  
Alice Maroni  
Ann Orr  
Patricia Kelly  
Cathleen Kronopolus  
Karen Morris  
Robert Scherer  
Judith Starr  
Michael Rae  
Marty Boehm

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Audit of the Pension Benefit Guaranty  
Corporation's Financial Statements Closing  
Package for Fiscal Year 2017 and 2016

Audit Report AUD -2018-5/ FA-17-119 -2

**Independent Auditors' Report on  
Financial Statements Closing Package For  
Fiscal Year 2017 and 2016**

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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 of Pension Benefit Guaranty Corporation (PBGC) which comprise the:

- Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reconciliation Report - Reclassified Balance Sheet as of September 30, 2017;
- Related GTAS Reconciliation Reports - Reclassified Statement of Net Cost and Reclassified Statement of Operations and Changes in Net Position for the year then ended;
- Related notes to the financial statements (herein referred to as the "closing package financial statements"). The notes to the closing package financial statements comprise the following:
  - GTAS Closing Package Lines Loaded Report
  - Financial Report (FR) Notes Report (except for the information in the FR Notes Report entitled "2016-September," "Prior Year," "PY," "previously reported," "Line item changes," and "Threshold")
  - Accompanying Additional Note 28

***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 (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 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 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 17-03 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

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

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 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, 2017, 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 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, 2017, 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. The notes to the closing package financial statements are those that the U.S. Department of Treasury deemed relevant to the *Financial Report of the U.S. Government*. 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 and OMB Bulletin 17-03, the general-purpose financial statements of PBGC as of September 30, 2017 and 2016, and our report thereon, dated November 15, 2017, 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, 2017, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of \$11 billion and \$65 billion, respectively. 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 \$238 billion and \$14 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, 2015, and adjusted the value reported

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

for liabilities to the estimated balance as of December 31, 2016, using actuarial assumptions. PBGC did not adjust the estimate for economic conditions that occurred between December 31, 2016 and September 30, 2017, and as a result, the actual loss for the Single-Employer Program as of September 30, 2017, 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 general-purpose 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 other than that described in the first paragraph are presented for purposes of additional analysis in accordance with TFM Chapter 4700 and are not a required part of the closing package financial statements. We read the other information included with the closing package financial statements in order to identify material inconsistencies, if any, with the audited closing package financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the closing package financial statements for the year ended September 30, 2017 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. 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 17-03, we have also issued a report dated November 15, 2017, which presents our opinion 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*. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin 17-03 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 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 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, 2017, disclosed the following three significant deficiencies, and one instance of noncompliance, described below, that are required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin 17-03:

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

### *Significant Deficiencies*

#### 1. Controls over the Present Value of Future Benefit Liability

During FY 2017, 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.

#### 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. 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. However, 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*

Potential Antideficiency Violation: PBGC maintains operating leases for all office site locations and its COOP site. However, PBGC did not record its full contractual obligation under all of the multiyear lease arrangements. We reported this as a potential violation in our FY 2016 Independent Auditor's Report. In FY 2017, PBGC general counsel reported the violation to the Office of Management and Budget and is currently awaiting a decision.

### **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, 2017, we also considered PBGC's internal control over the 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. However, material weaknesses or significant deficiencies may exist that have not been identified.

### **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 laws, regulations, contracts, and grant agreements with which could have a

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

direct effect on the determination of material closing package financial statement amounts and disclosures. 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 or other matters disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03.

**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 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. 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, 2017