



OFFICE OF INSPECTOR GENERAL  
**AUDIT REPORT**

**Audit of the Pension Benefit Guaranty  
Corporation's  
Financial Statements Closing Package  
for Fiscal Year 2018 and 2017**

**Report No. AUD-2019-2  
November 16, 2018**

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Office of Inspector General  
Pension Benefit Guaranty Corporation

November 16, 2018

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 Financial Statements Closing Package for Fiscal Years 2018 and 2017 (AUD -2019-2/FA-18-127-2)

I am pleased to transmit the report prepared by CliftonLarsonAllen LLP (CLA), an independent public accounting firm, resulting from their audit of the PBGC Financial Statements Closing Package for 2018 and 2017. 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.

CLA issued an unmodified opinion on the closing package financial statements. CLA is responsible for the attached auditors' report and conclusions expressed. We do not express an opinion on PBGC's closing package financial statements, conclusions on the effectiveness of the internal control over financial reporting process for the closing package financial statements, 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: Tom Reeder  
Alice Maroni  
Ann Orr  
Patricia Kelly  
Theodore Winter  
David Foley  
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 2018 and 2017

Audit Report AUD -2019-2/FA-18-127-2

**Independent Auditors' Report on  
Financial Statements Closing Package For  
Fiscal Year 2018 and 2017**

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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, 2018, and the related GTAS Reconciliation Reports - Reclassified Statement of Net Cost and Reclassified Statement of Operations and Changes in Net Position for the year then ended, and the related notes to the financial statements (herein referred to as the "closing package financial statements"). The notes to the financial statements comprise the following:

- o the GTAS Closing Package Lines Loaded Report,
- o Financial Report (FR) Notes Report (except for the information in the FR Notes Report entitled "2017-September," "Prior Year," "PY," "Previously Reported," "Line item changes," and "Threshold," [and the information as of and for the year-ended September 30, 2018 in the "Text Data" of the FR Notes Reports]), and
- o Accompanying Additional Note 31 [(except for the information as of and for the year ended September 30, 2018)].

***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 U.S. generally accepted accounting principles; 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 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 19-01 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 risks 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, 2018, and its net costs and changes in net position for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

As discussed in Additional Note 31 to the closing package financial statements, which describes that the accompanying closing package financial statements 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, 2018, 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"). 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 of the United States; and OMB Bulletin 19-01, the general-purpose financial statements of PBGC as of and for the years ended September 30, 2018 and 2017, and our report thereon, dated November 15, 2018, 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, 2018, PBGC reported in its financial statements a net credit position (assets in excess of liabilities) in the Single-Employer Program Fund of \$2 billion and a net deficit position (liabilities in excess of assets) in the Multiemployer Program Fund of \$54 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 \$175 billion and \$9 billion, respectively. Management calculated the potential losses from single employer plans whose termination is reasonably possible based on the most

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

recent data available from filings and submissions for plan years ended on or after December 31, 2016, and adjusted the value reported for liabilities to the estimated balance as of December 31, 2017, using actuarial assumptions. PBGC did not adjust the estimate for economic conditions that occurred between December 31, 2017 and September 30, 2018, and as a result, the actual loss for the Single-Employer Program as of September 30, 2018, 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 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 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, 2018 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 19-01, we have also issued a report dated November 15, 2018, 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 19-01 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.

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

Our audit of the financial statements of PBGC, as of and for the year ended September 30, 2018, disclosed the following three 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 19-01:

### *Significant Deficiencies*

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

During FY 2018, 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. OBA also failed to use the most updated actuarial assumptions when estimating administrative expenses over the PVFB liability.

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

Lack of a quality control review process contributed to PBGC's failure to detect coding errors in its system when updating 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. 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, CLA found that PBGC did not record its full contractual obligation under all of its multiyear lease arrangements. We reported this as a potential violation in our FYs 2016 and 2017 Independent Auditors' Report. PBGC's General Counsel reported the potential violation to the Office of Management and Budget (OMB) in FY 2017 and is currently awaiting a decision.

PBGC restructured two of six operating leases in response to the reported prior year potential violations. These two leases include contractual clauses requiring a period of six months' notice prior to exercising funding options, including obligating funds, as well as availability of funds clauses. However, PBGC may not have provided sufficient written notice to its landlords regarding the availability of funds for the remaining leases. Consequently, PBGC may have violated a provision within the Antideficiency Act.

### **Internal Control over Financial Reporting Specific to the Closing Package Financial Statements**

In planning and performing our audit of the closing package financial statements as of and for the year ended September 30, 2018, 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,

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

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, noncompliance with which could have a material effect on the closing package financial statements. 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. 19-01.

**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**



Greenbelt, Maryland  
November 16, 2018

## NOTES TO THE CLOSING PACKAGE FINANCIAL STATEMENTS

### Note 32 - Closing Package Financial Statement Requirements

The Budget and Accounting Procedures Act of 1950 allows the Secretary of the Treasury to stipulate the format and requirements of executive agencies to furnish financial and operational information to the President and Congress to comply with the Government Management Reform Act of 1994 (GMRA) (Pub. L. No. 103-356), which requires the Secretary of the Treasury to prepare and submit annual audited financial statements of the executive branch. The Secretary of the Treasury developed guidance in the U.S. Department of the Treasury's *TFM Volume I, Part 2, Chapter 4700* to provide agencies with instructions to meet the requirements of GMRA. The *TFM Chapter 4700* requires agencies to:

1. Reclassify all line items and amounts on the comparative audited consolidated, department-level balance sheets, statement of net cost/income statement, statement of changes in net position, statement of social insurance, statements of changes in social insurance amounts, and statement or note on custodial activity, if applicable, to the closing package financial statements.
2. List closing package financial statement line item amounts identified as Federal by trading partner and amount.
3. Report notes information that is based on the Reclassified Balance Sheet line items and other notes information required to meet Federal Accounting Standards Advisory Board (FASAB) standards.
4. Report other data information that is not based on the Reclassified Balance Sheet line items and other data noted information required to meet FASAB standards.