



OFFICE OF INSPECTOR GENERAL
AUDIT REPORT

**Fiscal Year 2017
Financial Statement Audit
Management Letter Report**

**Report No. AUD-2018-9
January 16, 2018**

This page intentionally left blank.



Office of Inspector General
Pension Benefit Guaranty Corporation

January 16, 2018

TO: Thomas Reeder
Director

Patricia Kelly
Chief Financial Officer

FROM: Robert A. Westbrooks
Inspector General

SUBJECT: Fiscal Year 2017 Financial Statements Audit
Management Letter (AUD-2018-9/FA-17-119-4)

I am pleased to transmit the attached Fiscal Year 2017 Financial Statement Audit Management Letter Report resulting from the Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2017 and 2016 Financial Statements (AUD-2018-4/FA-17-119-1).

During the audit, our independent public accounting firm, CliftonLarsonAllen LLP, identified certain issues that while significant are not of sufficient magnitude to impact the financial statement opinion. These issues related to PBGC internal controls and operations were not included in the Report on Internal Controls Related to the PBGC's Fiscal Year 2017 and 2016 Financial Statement Audit issued on November 17, 2017 (AUD-2018-6/FA-17-119-3). This management letter summarizes CliftonLarsonAllen's findings and recommendations regarding those less significant matters and includes the status of prior years' management letter recommendations.

In your January 08, 2018 response to a draft of the Management Letter Report, you indicated that PBGC management agreed with the new recommendations and provided planned corrective actions with estimated completion dates. Responses to individual recommendations have been incorporated into the Management Response sections of Attachment III and Attachment IV.

During FY2017, CliftonLarsonAllen, as part of their work, followed up on open recommendations included in the previous years' management letters. This year the OIG and our independent public accounting firm will continue working with management to discuss and evaluate the status of prior years' recommendations.

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
Alice Maroni
Ann Orr
Michael Rae
Judith Starr
Marty Boehm

Patricia Kelly
Cathleen Kronopolus
Karen Morris
Robert Scherer
Theodore Winter

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, 2017 and PBGC's internal control over financial reporting as of September 30, 2017, and have issued our reports ¹ thereon dated November 15, 2017. 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, 2017. 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 the full contractual obligation under its current multiyear lease arrangements.

We previously provided a written communication dated November 15, 2017, which lists the significant deficiencies identified during our audits of the financial statements of PBGC as of and for the year ended September 30, 2017, and PBGC's internal control over financial reporting as of September 30, 2017. 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.

¹ Audit of the Pension Benefit Guaranty Corporation Fiscal Year 2017 and 2016 Financial Statements – AUD-2018-4/FA-17-119-1
<http://oig.pbgc.gov/summaries/EVAL-2018-4.html>

Report on Internal Controls Related to the Pension Benefit Guaranty Corporation's Fiscal Year 2017 and 2016 Financial Statements – AUD 2018-6/ FA-17-119-3 <http://oig.pbgc.gov/summaries/AUD-2018-6.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, 2017

I. ACRONYMS

AVR	Actuarial Valuation Report
BD	Budget Department
CCRD	Corporate Controls and Reviews Department
CFS	Consolidated Financial System
CLA	CliftonLarsonAllen LLP
CPF	Corporate Premium Filing
EIN	Employer Identification Number
FMA	Financial Management Applications
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOD	Financial Operations Department
FRP	Flat Rate Premium
FSB	Financial Systems Branch
FT	Funding Target
FY	Fiscal Year
IT	Information Technology
MyPAA	My Plan Administration Application
NIST	National Institute of Standards and Technology
NFR	Notice of Findings and Recommendations
NRAD	Office of Negotiations and Restructuring Actuarial Division
OBA	Office of Benefits Administration
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
PIF	Payee Information Form
PIP	Pension Information Profile
PPCD	Policies, Procedures and Control Division
PPS	Premium Practitioner System
RCF	Recommendation Completion Form
RoB	Rules of Behavior
RP	Reasonably Possible
TAS	Trust Accounting System
TP	Technical Procedure
SSP	System Security Plan
VRP	Variable Rate Premium

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

This page was intentionally left blank.

II. EXECUTIVE SUMMARY

As part of the fiscal year (FY) 2017 financial statements audit, we tested internal controls over financial reporting and compliance with laws, regulations, contracts and grant agreements as of September 30, 2017, 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. 17-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 17-03). 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	OBA	FOD	NRAD	CCRD	BD	Total
Open recommendations as of September 30, 2016	5	3	2	1	3	14
Recommendations moved from Report on Internal Controls	0	0	0	0	0	0
Recommendations closed during FY 2017 audit cycle	<u>(2)</u>	<u>(2)</u>	<u>(1)</u>	<u>(1)</u>	<u>(0)</u>	<u>(6)</u>
Total prior years' open recommendations as of September 30, 2017	3	1	1	0	3	8
Add: new FY 2017 recommendations	<u>0</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>3</u>
Total open recommendations as of September 30, 2017	<u><u>3</u></u>	<u><u>3</u></u>	<u><u>2</u></u>	<u><u>0</u></u>	<u><u>3</u></u>	<u><u>11</u></u>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

III. FISCAL YEAR 2017 FINDINGS AND RECOMMENDATIONS

FISCAL YEAR 2017 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>Title: FOD Rules of Behavior</p> <p>The Financial Operations Department (FOD) granted new users' logical access to the Trust Accounting System (TAS), Premium Practitioner System (PPS), and the My Plan Administration Account (MyPAA) applications prior to the new users reviewing and signing the FOD Rules of Behavior (RoB). In addition, new PPS application users reviewed and signed an outdated version of the FOD's RoB (RoB 4.1). At the time of the PPS new users' review, the most current version of the RoB was version 4.2. Specifically, we noted the following:</p> <p>From a sample of four TAS application users:</p> <ul style="list-style-type: none"> • One user was granted access before the FOD RoB was signed. <p>From a sample of nine PPS application users:</p> <ul style="list-style-type: none"> • Four users were granted access before the FOD RoB was signed. • Two users signed an outdated version of the FOD RoB (RoB 4.1). • One user was granted access before the FOD RoB was signed and the user signed an outdated version of the RoB. <p>From a sample of six MyPAA application users:</p>	<p>We recommend the following to address the identified condition:</p> <p>OIG Control Number: FOD-404 (NFR 17-01)</p> <p>FOD should develop and implement procedures for the Business Owner to obtain the signed RoB from users and acknowledge completion prior to the FSB administrators granting access to FOD applications.</p> <p>OIG Control Number: FOD-405 (NFR 17-01)</p> <p>Revise the Financial Management Applications Security Procedures to clearly state that system access should not be provided without the most recent version of the RoB on file.</p>	<p>OIG Control Number: FOD-404 and FOD-405 (NFR 17-01)</p> <p>PBGC Response: The FOD agrees with the exceptions. Starting October 1, 2017, the FOD implemented new written procedures and no longer require users to sign the FOD RoB. Instead, the FOD now relies on the RoB offered by the Office of Information of Technology (OIT) when users log onto the PBGC Network. Inheriting the OIT's RoB will alleviate the need for the FOD to obtain a signed RoB before granting access to users. This is consistent with other PBGC departments. The corrective action was fully implemented on October 1, 2017, and a Recommendation Completion Form will be submitted by June 30, 2018 (which will include supporting documentation to demonstrate compliance).</p> <p>Targeted Completion Date: Actual Completion Date – October 1, 2017; Recommendation Completion Form Target Submission Date – June 30, 2018</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

FISCAL YEAR 2017 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<ul style="list-style-type: none"> One user was granted access before the FOD RoB was signed. <p>Criteria:</p> <p>Financial Operations Department, Financial Management Applications Rules of Behavior, Version 4.2 states:</p> <p>2. Administrator Responsibilities:</p> <ol style="list-style-type: none"> FOD, Policies, Procedures, and Control Division (PPCD), Financial Systems Branch (FSB) administrators obtain, certify, and retain signed Rules prior to granting any user access to any FOD financial management application. FOD, PPCD, FSB administrators terminate access for any user who does not have a signed Rules on file. <p>Financial Management Applications Security Procedures, version 3.4, dated March 7, 2016 states:</p> <p>18.2 FOD IT Security Team Responsibilities</p> <p>The FOD IT Security Team should monitor and assist (when appropriate) FSB with the collection and analysis of the FOD FMA RoB to ensure that each user of the FOD FMA and the FOD FMA information has a signed RoB on file.</p>		

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

FISCAL YEAR 2017 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>System access should not be provided without a signed RoB on file.</p> <p>My Plan Administration Account Administrative System Security Plan (SSP) states:</p> <p>Planning (PL) – 04 Rules of Behavior</p> <p>The organization:</p> <ul style="list-style-type: none"> a. Establishes and makes readily available to individuals requiring access to the information system, the rules that describe their responsibilities and expected behavior with regard to information and information system usage; and b. Receives a signed acknowledgment from such individuals, indicating that they have read, understand, and agree to abide by the rules of behavior, before authorizing access to information and the information system. <p>Implementation Statement</p> <p>a and b. The Financial Operations Department developed and implemented the Financial Operations Department Financial Management Applications Rules of Behavior for Financial Operations Department applications.</p>		

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

FISCAL YEAR 2017 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p><i>Trust Accounting System Security Plan</i> states:</p> <p>Planning (PL) – 04 Rules of Behavior Implementation Statement:</p> <p>PL-4a - The Financial Operations Department developed and implemented the Financial Operations Department Financial Management Applications Rules of Behavior for the Financial Operations Department applications. The Financial Operations Department also relies on the Office of Information Technology's Rules of Behavior.</p> <p>PL-4b - The Financial Operations Department receives a signed Rules of Behavior from users indicating that they have read, understand, and agree to abide by the rules of behavior, before authorizing access to information and the information system. The signed Rules of Behavior are stored in an Access database maintained by the Financial Operations Department.</p> <p><i>Consolidated Financial System Security Plan</i> states:</p> <p>The CFS is comprised of the following modules:</p> <ol style="list-style-type: none"> 1. The Consolidated Financial System Revolving Fund System 2. The Consolidated Financial System Trust Accounting System 3. The Consolidated Financial System Consolidated System 4. The Premium and Practitioner System 		

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

FISCAL YEAR 2017 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>Planning (PL) – 04 Rules of Behavior</p> <p>Implementation Statement: PL-4 (a) - The Financial Operations Department developed and implemented the Financial Operations Department Financial Management Applications Rules of Behavior for the Financial Operations Department applications. The Financial Operations Department also relies on the Office of Information Technology's Rules of Behavior.</p> <p>PL-4 (b) - The Financial Operations Department receives a signed Rules of Behavior from users indicating that they have read, understand, and agree to abide by the rules of behavior, before authorizing access to information and the information system. The signed Rules of Behavior are stored in an Access database maintained by the Financial Operations Department.</p>		

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

FISCAL YEAR 2017 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>Title: Single-Employer Reasonably Possible</p> <p>We randomly selected a sample of 161 plans (65 4010 plans, 7 Pension Information Plans (PIP) and 89 Premium plans) to perform the single-employer reasonably possibles for large plans testing. We identified a calculation error in one sample for determining the net unfunded vested liability for 4010 plans.</p> <p>Criteria:</p> <p>Reasonably Possible (RP) List Procedures- FY 2017, Section 3: <u>Procedures for 4010 or PIP as Data Sources</u>, Step 5, Bullet 2 states: Review the attachments of the 4010 filing. There should be a current Actuarial Valuation Report (AVR) or supplemental attachment with the plan’s Active Vested Funding Target (FT) and Active Total Funding Target. At the top of the screen select the item from the drop down menu that corresponds to the source document of the active FT and Active Vested FT. Enter the information and click compute and the program will calculate the vested liability. Bullet 5 states: A second person will need to review the calculation. The reviewer should check every item in the screen including 4010 plan year end, 4010 BL, 4010 assets, adjustment factors, funding target (vested and total), vested percentage, vested liabilities, and unfunded vested liabilities. Once reviewed click on the “reviewed” button.</p>	<p>We recommend the following to address the identified condition:</p> <p>OIG Control Number: NRAD-08 (NFR 17-06)</p> <p>NRAD should correct the adjustment factor table selected for sample 15 (Federal-Mogul Corporation Pension Plan).</p>	<p>OIG Control Number: NRAD-08 (NFR 17-06)</p> <p>PBGC Response:</p> <p>Agree. NRAD corrected the adjustment factor table selected for sample 15 (Federal-Mogul Corporation Pension Plan) before the completion of the 9/30/17 RP List.</p> <p>Targeted Completion Date: August 31, 2018</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

IV. PRIOR YEARS' RECOMMENDATIONS

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2017 TESTING	TARGETED COMPLETION DATE
<p>Title: Premiums</p> <p>The Financial Operations Department (FOD) has a lack of controls surrounding the completeness and accuracy of the premium balance. Specifically, FOD does not perform a comprehensive reconciliation of key data inputs between the Form 5500 and the Comprehensive Premium Filing (CPF) that includes both plan participant counts and market value of the plan assets. These inputs are essential to calculate the fixed rate premium for the Single-Employer and Multiemployer plans as well as the variable rate premium for Single-Employer plans at June 30. FOD stated that an electronic comparison of the Form 5500 and the CPF by plan year is limited to matching a defined benefit plan sponsor's Employer Identification Number (EIN). This comparison is used by PBGC to identify potential non-filers that owe PBGC premiums for a specific plan year.</p>	<p>OIG Control Number: FS-14-15</p> <p>We reviewed the Recommendation Completion Form (RCF) and did not note evidence that FOD completely addressed the finding. FOD performed an analysis comparing the key inputs within the Form 5500 and CPF for fiscal years 2013 and 2014, namely for variances in unmatched asset values and unmatched participant counts. During our prior and current year testing, FOD has stated that any variances in key inputs between the Form 5500 and the CPF were due to definitional differences in the data requested. However, we noted during our review of their analysis that for the analysis over unmatched asset values, FOD determined that there were 34 plans that required follow-up to explain existing discrepancies, representing \$3.1 million in additional potential Variance Rate Premium (VRP) income. Additionally, FOD's analysis over the unmatched participant counts uncovered 24 plans that required follow-up to explain existing discrepancies, representing an additional \$7 million in additional potential VRP income. While approximately 30 of these plans were able to explain the variances without revisions, the remaining plans admitted errors, which required revised premium filings to be submitted to PBGC.</p> <p>FOD has implemented a tracking tool to</p>	<p>OIG Control Number: FS-14-15</p> <p>PBGC Response: CLA's <i>Results of FY 2017 Testing</i> states "During our prior and current year testing, FOD has stated that any variances in key inputs between the Form 5500 and the CPF were due to definitional differences in the data requested." This is not correct. In each of the prior meetings with OIG/CLA on this topic over the past two years, FOD has clearly stated that there are definitional differences in the participant counts reported on the Form 5500 and the Comprehensive Premium Filing. Further, we referred the OIG/CLA to the Comprehensive Premium Filing Instructions (page 11 for 2017 Plan Years) as support for our definitional difference claim. Had we thought that all variances are due to definitional differences, we would not have agreed with the IG recommendation. We do believe that there are three categories of participant count differences: (1) those due to definitional differences, which are not errors, (2) those due to errors that do not affect premium, and (3) those due to errors that do affect premium. The purpose of our analysis was to determine the impact of errors that do affect premium. In our 2013 analysis, we found that the additional potential Flat Rate Premium (FRP) amounted to less than 1% of flat rate premium revenue for that year,</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2017 TESTING	TARGETED COMPLETION DATE
	<p>monitor said variances in the future. However, during our testing, we noted variances that management could not at the time definitively determine to be related to timing differences or errors.</p> <p>Secondly, FOD indicated to us that during their detailed analysis, they focused only on plans that would result in a "significant" amount of additional premium income. However, it is unclear what methodology FOD came up with to determine what amount was deemed significant.</p> <p>While FOD has made significant progress in addressing this finding with their analysis, issues remain regarding how FOD will track these key data issues unrelated to definitional differences, as well as their methodology for determining which variances are considered significant enough for follow-up with plan administrators.</p>	<p>and the amount of FRP underpaid due to errors found after testing was one hundredth of one percent of flat rate premium revenue. Similar results were found for variable rate premium, and were documented in the same 2013 analysis that was forwarded to OIG/CLA in January 2016.</p> <p>CLA's <i>Results of FY 2017 Testing</i> says that during their testing, variances were noted that management could not at the time definitively determine to be related to timing differences or errors. This is correct, however, as explained when we met with OIG/CLA, not indicative of a problem. There are thousands of plans with participant count differences. Our analysis of 2013 plan years showed that, had we tested all p-count variances, the amount of recovered flat rate premium would have been one hundredth of one percent of total 2013 flat rate premium. It would not be cost effective to determine which of these thousands of variances are due to errors that affect premium revenue. We believe that participant count variances are generally not indicative of premium revenue issues because we have demonstrated (in the previously provided 2013 analysis and 2014 analysis) that the premium we can recover through this process is approximately one hundredth of one percent of flat rate premium revenue. We do plan to continue following up on large variances, but do not intend to waste resources trying to explain thousands of insignificant variances.</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2017 TESTING	TARGETED COMPLETION DATE
		<p>CLA's <i>Results of FY 2017 Testing</i> says that it is unclear what methodology FOD came up with to determine what amount was deemed significant. When this process was new, we did an initial analysis of the data, assessed the costs and benefits of further review, and then selected an operational threshold of significance after the initial analysis was complete. On 12/19/2016, we submitted a paper to OIG/CLA, titled "2013 Premium Analysis – Significance Cutoff Determination related to RCF 14-15." This paper clearly described how FOD determined what amounts were deemed operationally significant. It included a stratification of the differences, and the reasoning for the significance cutoff. Now that we have two years of analysis behind us, we have a sufficient quantity of data to assess long term trends and to be able to establish management's view of an "operational threshold of significance." For the 2015 filing review, we selected an operational threshold of significance based on the trends we observed in the 2013 and 2014 analyses, and we are using that threshold in the review of the 2015 filings. We intend to use this methodology going forward, looking back on historical trends to formulate the operational threshold of significance for each plan year review. We expect to complete the report on the 2015 filings by May 31st, and will attach it to another Recommendation Completion Form.</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2017 TESTING	TARGETED COMPLETION DATE
		<p>Targeted Completion Date:</p> <p>Actual Completion Date: 1/13/2016.</p> <p>First Recommendation Completion Form submission date: 1/15/2016.</p> <p>Second Recommendation Completion Form submission date: 1/30/2017.</p> <p>Next Recommendation Completion Form target submission date: 5/31/2018.</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2017 TESTING	TARGETED COMPLETION DATE
<p>Title: Large and Medium Multiemployer Plans</p> <p>OIG Control Number: FS-14-41</p> <p>The Actuarial Services Division/OBA should undertake a consolidation and codification of its technical procedures and actuarial practices into a single documentation source for single employer plan valuations.</p>	<p>OIG Control Number: FS-14-41</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p>	<p>OIG Control Number: FS-14-41</p> <p>Status: As of December 8, 2014, OBA provided a spreadsheet stating the status of open OIG recommendations and the corrective action plans to address them. The completion target date for this recommendation is December 31, 2018, and OBA expects to submit an RCF requesting closure by this date.</p> <p>Targeted Completion Date: December 31, 2018</p>
<p>Title: Large and Medium Multiemployer Plans</p> <p>OIG Control Number: FS-14-42</p> <p>The Actuarial Services Division/OBA should undertake a consolidation and codification of its technical procedures and actuarial practices into a single documentation source for multiemployer plan valuations.</p>	<p>OIG Control Number: FS-14-42</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p>	<p>OIG Control Number: FS-14-42</p> <p>Status: As of December 8, 2014, OBA provided a spreadsheet stating the status of open OIG recommendations and the corrective action plans to address them. The completion target date for this recommendation is December 31, 2018, and OBA expects to submit an RCF requesting closure by this date.</p> <p>Targeted Completion Date: December 31, 2018</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2017 TESTING	TARGETED COMPLETION DATE
<p>Title: OBA-Benefit Payments</p> <p>OIG Control Number: OBA-02</p> <p>Perform on a monthly basis a documented, independent verification of the benefit payment controls to confirm that management's objectives are accomplished.</p>	<p>OIG Control Number: OBA-02</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p>	<p>OIG Control Number: OBA-02</p> <p>Status: OBA is analyzing benefit payment controls and is in the process of developing a verification process to address the recommendation.</p> <p>Targeted Completion Date: June 30, 2018</p>
<p>Title: Budget</p> <p>OIG Control Number: BD-04</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>OIG Control Number: BD-04</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p>	<p>OIG Control Number: BD-04</p> <p>Status: The Funds Control Directive has been approved by the CMO and is currently with OMB awaiting their concurrence.</p> <p>Targeted Completion Date: June 30, 2018</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2017 TESTING	TARGETED COMPLETION DATE
<p>Title: Budget</p> <p>OIG Control Number: BD-05</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>OIG Control Number: BD-05</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p>	<p>OIG Control Number: BD-05</p> <p>Status: BD stated that there are compensating controls in place to provide management assurance that internal controls on the realignment of funds are working, given the controls that are in place within CFS and departmental Budget Liaison Officers. BD will draft BD internal procedures that address the realignment of funds and the compensating controls. Upon completion, BD will review the current controls with the internal control committee and determine if the current compensating controls that are in place need to be augmented or strengthened.</p> <p>Targeted Completion Date: June 30, 2018</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2017 TESTING	TARGETED COMPLETION DATE
<p>Title: Budget</p> <p>OIG Control Number: BD-6</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>OIG Control Number: BD-06</p> <p>Management indicated that corrective actions to address the prior year recommendation was initiated but have not been completed; therefore, CLA did not perform further testing and the recommendation will remain open.</p>	<p>OIG Control Number: BD-06</p> <p>Status: BD will supplement its current directives with internal procedures to ensure definitions and processes are better documented.</p> <p>Targeted Completion Date: June 30, 2018</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2017 TESTING	TARGETED COMPLETION DATE
<p>Title: Single Employer Reasonably Possible</p> <p>We identified a calculation error in one sample for determining the net unfunded vested liability for 4010 the plans.</p> <p>Criteria:</p> <p>RP List Procedures-FY 2016, Section 3:</p> <p>Procedures for 4010 or PIP as Data Sources, Step 5, Bullet 2 states:</p> <p>Review the attachments of the 4010 filing. There should be a current AVR or supplemental attachment with the plan's Active Vested Funding Target (FT) and Active Total Funding Target. At the top of the screen select the item from the drop down menu that corresponds to the source document of the active FT and Active Vested FT. Enter the information and click compute and the program will calculate the vested liability. Bullet 4 states: A second person will need to review the calculation.</p>	<p>OIG Control Number: NRAD-07 (NFR 16-17)</p> <p>We reviewed the RCF and noted that NRAD added an additional process to reduce the likelihood of similar calculation errors. However, during the FY 2017 interim testing, we identified 1 calculation error where the incorrect liability adjustment factors were used. Therefore, the recommendation will remain open.</p>	<p>OIG Control Number: NRAD- 07 (NFR 16-17)</p> <p>PBGC Response:</p> <p>Agree. NRAD corrected the adjustment factor table selected for sample 15 (Federal-Mogul Corporation Pension Plan) before the completion of the 9/30/17 RP List.</p> <p>For future years, NRAD anticipates automating the selection of the adjustment factor table in TeamConnect.</p> <p>Targeted Completion Date: August 31, 2019</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

V. RECOMMENDATIONS CLOSED IN FISCAL YEAR 2017 AUDIT CYCLE

<u>OIG Control Number</u>	<u>Date Closed</u>	<u>Original Report Number</u>
BAPD-116	10/17/2017	AUD-2013-08/FA-12-88-7
CCRD-14	10/31/2017	AUD-2015-06/FA-14-101-5
NRAD-06	10/26/2017	AUD-2017-6/FA-16-110-5
OBA-01	11/2/2017	AUD-2017-6/FA-16-110-5
FOD-401	9/25/2017	AUD-2017-6/FA-16-110-5
FOD-402	11/6/2017	AUD-2017-6/FA-16-110-5

VI. OPEN RECOMMENDATIONS AS OF NOVEMBER 15, 2017

<u>OIG Control Number</u>	<u>Original Report Number</u>
<i>Prior Year:</i>	
FS-14-41	AUD-2015-3/FA-14-101-3
FS-14-42	AUD-2015-3/FA-14-101-3
FS 14-15	AUD-2015-3/FA-14-101-3
OBA-02	AUD-2017-6/FA-16-110-5
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
NRAD-07	AUD-2017-6/FA-16-110-5
<i>Current Year:</i>	
NRAD-08	
FOD-404	
FOD-405	

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

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*

E-Government Act of 2002 (Public Law 107-347)

NIST Special Publication 800-53 Rev. 4, *Security and Privacy Controls for Federal Information Systems and Organizations*

OBA Operations Manual TP

16 OBA Operations Manual

TP 20 OBA Operations

Manual TP 21.9 OBA

Operations Manual TP 22.2

OBA Funding Reconciliation

Procedure OBA Post Balancer

Procedure

FY 2017 Benefit Payments Cycle

Memo RP List Procedures

Users Procedures Guide

Single-Employer Reasonably Possible Calculation Tool for Small Plans User Guide
Version 1.1

Financial Operations Department, Financial Management Applications Rules of Behavior,

Version 4.2

Financial Management Applications Security Procedures, version 3.4

VIII. MANAGEMENT RESPONSE



Office of the Director

January 8, 2018

To: Robert Westbrooks
Inspector General

From: W. Thomas Reeder
Director

A handwritten signature in blue ink that reads "W. Thomas Reeder". The signature is written in a cursive style and is positioned to the right of the typed name "W. Thomas Reeder".

Subject: Response to Draft FY 2017 Management Letter Report

PBGC management appreciates the opportunity to comment on the draft management letter report issued as part of the FY 2017 financial statement audit.

We are in agreement with the draft report's new recommendations. For your convenience, we are separately sending a detailed response via an electronic attachment based on your report's format. This will include a response to each new recommendation, including our planned corrective actions and estimated completion dates. It will also include updates regarding prior year recommendations referenced in Section IV of the draft report.

Please contact Marty Boehm on ext. 3901, should you have any questions.

cc:

- Patricia Kelly, Chief Financial Officer
- Cathy Kronopolus, Chief of Benefits Administration
- Alice Maroni, Chief Management Officer
- Karen Morris, Chief of Negotiations and Restructuring
- Ann Orr, Chief of Staff
- Michael Rae, Deputy Chief Policy Officer
- Robert Scherer, Chief Information Officer
- Judith Starr, General Counsel
- Marty Boehm, Director, Corporate Controls and Reviews Department



Office of Inspector General
Pension Benefit Guaranty Corporation

February 2, 2018

TO: Thomas Reeder
Director

FROM: Robert A. Westbrook
Inspector General 

SUBJECT: ADDENDUM to Fiscal Year 2017 Financial Statements Audit
Management Letter (AUD-2018-9/FA-17-119-4)

As we first reported to management in a memorandum dated January 19, 2018, after our issuance of the FY 2017 management letter report on January 16 our office discovered that we inadvertently omitted reference to two audit recommendations that were previously identified in Exhibit II of the FY 2017 financial statement audit report. These two recommendations were initially reported to management in NFR 17-12. These recommendations are detailed on an addendum from CliftonLarsenAllen LLP, which is attached along with management's response. Management concurs with these recommendations and plans to complete corrective action by June 2019.

This addendum will be posted on our website.

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

ADDENDUM

III. FISCAL YEAR 2017 FINDINGS AND RECOMMENDATIONS

FISCAL YEAR 2017 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>Title: Leases</p> <p>In FY 2016, we found that the Corporation violated the Antideficiency Act due to its failure to record in full all contractual obligations incurred in connection with its headquarters operating lease agreements. The Corporation disclosed in its FY 2017 FMFIA assurance statement that PBGC is in the process of remediating all remaining leases to conform to the GAO guidance for the recording of obligations for multiple-year leases. Further, the Corporation asserted that all operating leases up to five years could be incrementally funded based on authority established by 41 U.S.C § 3903. The Corporation's position is not consistent with the reporting of its headquarters violations to OMB in FY 2017. During our inspection of the FBA lease agreements, we found that the Corporation may have violated the Antideficiency statute again in FY 2017.</p> <p>Criteria:</p> <p>31 U.S.C. § 1341(a)(1)(A) prohibits a federal employee from making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund, unless authorized by law.</p>	<p>We recommend the following to address the identified condition:</p> <p>OIG Control Number: BD-07 (NFR 17-12)</p> <p>PBGC management should perform a comprehensive review of all operating lease arrangements and determine whether the Corporation complies with the Antideficiency Act provisions, and report all violations to OMB immediately.</p> <p>OIG Control Number: BD-08 (NFR 17-12)</p> <p>PBGC management should develop and implement a remediation plan to resolve any current and future potential funding deficiencies related to operating lease arrangements.</p>	<p>OIG Control Number: BD-07 (NFR 17-12)</p> <p>PBGC Response: Management concurs. PBGC will review all operating lease agreements and ensure compliance with ADA provisions. If there is an instance of non-compliance, PBGC will report any violation to OMB.</p> <p>Targeted Completion Date: June 2019.</p> <p>OIG Control Number: BD-08 (NFR 17-12)</p> <p>PBGC Response: Management concurs. If there are any current or future funding deficiencies, PBGC will develop and implement a remediation plan to ensure lease agreements are funded correctly.</p> <p>Targeted Completion Date: June 2019.</p>

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

FISCAL YEAR 2017 FINDINGS	RECOMMENDATIONS	MANAGEMENT RESPONSE
<p>31 U.S.C. § 1501(a)(1) requires an agency to record the full amount of its contractual liability against funds available at the time the contract was executed.</p> <p>OMB Bulletin A-11, Section 15.4: <u>What laws govern the budget execution process when funds are actually spent?</u></p> <p>“...The Antideficiency Act requires OMB to apportion the accounts and to monitor spending; prohibits agencies from spending more than the amount appropriated or apportioned, whichever is lower; requires that agencies control their spending; and provides penalties for overspending.”</p> <p>Specifically, agencies may not:</p> <ul style="list-style-type: none"> • Purchase services and merchandise before appropriations are enacted and accounts are apportioned; • Enter into contracts that exceed the appropriation for the year or the amount apportioned by OMB, whichever is lower; or • Pay bills when there is no cash in the appropriation or fund account.” 		

This document was produced for the PBGC Office of Inspector General. It is intended for the information and use of PBGC management and the Office of Inspector General.

**FY 2017 Financial Statements Audit
For the Year Ended September 30, 2017
Notification of Findings and Recommendations (NFR)**

Management Response:

Recommendation: Perform a comprehensive review of all operating lease arrangements and determine whether the Corporation complies with the Antideficiency Act (ADA) provisions. Report all violations to OMB immediately.

Response: Management concurs. PBGC will review all operating lease agreements and ensure compliance with ADA provisions. If there is an instance of non-compliance, PBGC will report any violation to OMB.

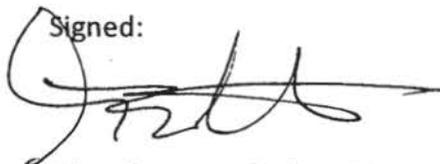
Estimated Completion Date: June 2019

Recommendation: Develop and implement a remediation plan to resolve any current and future potential funding deficiencies related to operating lease arrangements.

Response: Management concurs. If there are any current or future funding deficiencies, PBGC will develop and implement a remediation plan to ensure lease agreements are funded correctly.

Estimated Completion Date: June 2019

Signed:



01/26/18

Edgar Bennett, Budget Director