



OFFICE OF INSPECTOR GENERAL
AUDIT REPORT

**Fiscal Year 2018
Financial Statement Audit
Management Letter Report**

**Report No. AUD-2019-6
January 18, 2019**

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Office of Inspector General
Pension Benefit Guaranty Corporation

January 18, 2019

TO: Thomas Reeder
Director

Patricia Kelly
Chief Financial Officer

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

SUBJECT: Fiscal Year 2018 Financial Statements Audit
Management Letter (AUD-2019-6/FA-18-127-5)

I am pleased to transmit the attached Fiscal Year 2018 Financial Statement Audit Management Letter Report resulting from the Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2018 and 2017 Financial Statements (AUD-2019-1/FA-18-127-1).

We contracted with CliftonLarsonAllen LLP (CLA), an independent certified public accounting firm, to perform the audit. CLA conducted the audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and the Office of Management and Budget Bulletin No. 19-01, "Audit Requirements for Federal Financial Statements."

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

CLA is responsible for the attached management letter dated January 18, 2019. We do not express opinions on PBGC's financial statements, internal control, or conclusions with laws and regulations.

During the FY 2018 audit, CLA did not identified any new internal control deficiencies of less significant matters to be included in this report. CLA, as part of their work, followed up on open recommendations included in the previous years' management letters and closed seven recommendations. This year the OIG and CLA will continue working with management to discuss

and evaluate the status of four remaining prior years' recommendations.

In your January 16, 2019 response to a draft of the Management Letter Report, you indicated that PBGC management generally agreed with the prior years' open recommendations and provided planned corrective actions with estimated completion dates. Responses to individual prior years' recommendations have been incorporated into the Management Response section of Attachment IV.

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

cc:

Thomas Reeder
Alice Maroni
Ann Orr
Michael Rae
Judith Starr
Frank Pace

Patricia Kelly
David Foley
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, 2018, and PBGC's internal control over financial reporting as of September 30, 2018, and have issued our reports¹ thereon dated November 15, 2018. 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, 2018. 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 providing sufficient notice to landlords regarding the availability of funds.

We previously provided a written communication dated November 15, 2018, which lists the significant deficiencies identified during our audits of the financial statements of PBGC as of and for the year ended September 30, 2018, and PBGC's internal control over financial reporting as of September 30, 2018. 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 2018 and 2017 Financial Statements – AUD-2019-2/FA-18-127-1
<https://oig.pbgc.gov/summaries/AUD-2019-1.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, 2018

I. ACRONYMS

AVR	Actuarial Valuation Report
BD	Budget Department
CFS	Consolidated Financial System
CLA	CliftonLarsonAllen LLP
FMFIA	Federal Managers' Financial Integrity Act of 1982
FOD	Financial Operations Department
FT	Funding Target
FY	Fiscal Year
NFR	Notice of Findings and Recommendations
NRAD	Office of Negotiations and Restructuring Actuarial Division
OBA	Office of Benefits Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
PIP	Pension Information Profile
RCF	Recommendation Completion Form
RP	Reasonably Possible

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II. EXECUTIVE SUMMARY

As part of the fiscal year (FY) 2018 financial statements audit, we tested internal controls over financial reporting and compliance with laws, regulations, contracts and grant agreements as of September 30, 2018, based on the criteria contained in the FMFIA and OMB Circular A-123. We did not examine all internal controls relevant to operating objectives as broadly defined by FMFIA and OMB Circular A-123, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-01). 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	BD	Total
Open recommendations as of September 30, 2017	3	3	2	3	11
Recommendations moved from Report on Internal Controls	0	0	0	0	0
Recommendations closed during FY 2018 audit cycle	(3)	(3)	(1)	(0)	(7)
Total prior years' open recommendations as of September 30, 2018	0	0	1	3	4
Add: new FY 2018 recommendations	0	0	0	0	0
Total open recommendations as of September 30, 2018	0	0	1	3	4

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III. FISCAL YEAR 2018 FINDINGS AND RECOMMENDATIONS

No new findings and recommendations in FY 2018.

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IV. PRIOR YEARS' RECOMMENDATIONS

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2018 TESTING	TARGETED COMPLETION DATE
<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>We reviewed the RCF during the FY 18 testing, and noted that the management has drafted and submitted funds control regulations for OMB approval, as recommended. However, there appear to be several key elements missing from the submission that are required under OMB A-11, Appendix H. Therefore, the recommendation will remain open.</p>	<p>OIG Control Number: BD-04</p> <p>Status: BD has drafted a funds control directive and submitted it to OMB for approval. OMB has requested a funds control demonstration before approval of the directive. OMB and PBGC agreed to conduct the demonstration after the start of the new fiscal year. BD is in the process of scheduling the demonstration once the government shutdown ends.</p> <p>Targeted Completion Date: June 30, 2019</p>
<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>We reviewed the RCF during the FY 18 testing, and noted that the management's reasoning to exclude the addition of an interdepartmental log of changes and the information that has been provided is not sufficient in monitoring the funds of the Budget Department. Therefore, the recommendation will remain open.</p>	<p>OIG Control Number: BD-05</p> <p>Status: BD has a process in place that properly accounts for the review and reconciliation of the realignment of funds. In addition, BD is in the process of creating an electronic repository to maintain approved off-cycle requests. BD would like to discuss these processes in more detail relative to the finding with CLA/OIG.</p> <p>Targeted Completion Date: June 30, 2019</p>

PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2018 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>We reviewed the RCF during the FY 18 testing, and noted that Budget Department (BD) has demonstrated that they have performed due diligence in creating an accurate depiction of the duties and roles within the Budget Department; however, there are very little details as to the processing within the procedure's manual provided. Although this manual does catalogue the roles, it doesn't include step by step procedures of realignment of funds as recommended. Therefore, the recommendation will remain open.</p>	<p>OIG Control Number: BD-06</p> <p>Status: BD has been undergoing a process refinement to ensure the procedures manual documents the process.</p> <p>Targeted Completion Date: September 30, 2019</p>
<p>Title: Single Employer Reasonably Possible</p> <p>OIG Control Number: NRAD-07</p> <p>NRAD should strengthen its quality control review process to verify that all key data is properly entered and the liability is properly calculated.</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>OIG Control Number: NRAD-07</p> <p>Management indicated that corrective actions to address the prior year recommendation were initiated but have not been completed; therefore, CLA did not perform testing in FY 18 and the recommendation will remain open.</p>	<p>OIG Control Number: NRAD-07</p> <p>PBGC Response:</p> <p>Status: 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. In addition, NRAD has made substantial progress in strengthening its quality control review process.</p> <p>Targeted Completion Date: August 31, 2019</p>

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PRIOR YEARS' RECOMMENDATIONS	RESULTS OF FY 2018 TESTING	TARGETED COMPLETION DATE
<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>		

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V. RECOMMENDATIONS CLOSED IN FISCAL YEAR 2018 AUDIT CYCLE

<u>OIG Control Number</u>	<u>Date Closed</u>	<u>Original Report Number</u>
BAPD/FS-14-41	10/31/2018	AUD-2015-3/FA-14-101-3
BAPD/FS-14-42	10/31/2018	AUD-2015-3/FA-14-101-3
FOD/FS-14-15	12/19/2018	AUD-2015-3/FA-14-101-3
OBA-02	12/19/2018	AUD-2017-6/FA-16-110-5
NRAD-08	10/30/2018	AUD-2018-9/FA-17-119-4
FOD-404	10/23/2018	AUD-2018-9/FA-17-119-4
FOD-405	10/23/2018	AUD-2018-9/FA-17-119-4

VI. OPEN RECOMMENDATIONS AS OF NOVEMBER 15, 2018

<u>OIG Control Number</u>	<u>Original Report Number</u>
<u>Prior Year:</u>	
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

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*

Memo RP List Procedures

Users Procedures Guide

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

VIII. MANAGEMENT RESPONSE



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

Office of the Director

JAN 16 2019

To: Robert Westbrooks
Inspector General

From: W. Thomas Reeder
Director

Subject: Response to Draft FY 2018 Management Letter Report

PBGC management appreciates the opportunity to comment on the draft management letter report issued as part of the FY 2018 financial statement audit.

The draft report does not contain any new recommendations for FY 2018. For your convenience, we are separately providing updates regarding prior year recommendations via an electronic attachment based on your report's format. Please note that while we are in general agreement with the recommendations, there is one recommendation (BD-05) for which further discussions will be needed.

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

cc:

Patricia Kelly, Chief Financial Officer
David Foley, 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
Frank Pace, Acting Director, Corporate Controls and Reviews Department

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