



Pension Benefit Guaranty Corporation

Office of Inspector General

1200 K Street, N.W., Washington, D.C. 20005-4026

To the Board of Directors
Pension Benefit Guaranty Corporation

We contracted with Clifton Gunderson LLP, an independent certified public accounting firm, to audit the financial statements of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of September 30, 2005. The audit was performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and the *GAO/PCIE Financial Audit Manual*.

Clifton Gunderson's financial statement audit of PBGC's Single-Employer and Multiemployer Program Funds found:

- The financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- PBGC's assertion about internal control over financial reporting and compliance with laws and regulations is fairly stated in all material respects;
- Four reportable conditions, including three repeated from Fiscal Year 2004: financial management systems integration, information security, and single-employer premiums; and a new reportable condition: preparedness for unanticipated incidences and disruptions;
- No instances of noncompliance with tested laws and regulations.

Clifton Gunderson is responsible for the accompanying auditor's report dated November 9, 2005, and the conclusions expressed in the report. We do not express opinions on PBGC's financial statements or internal control, nor do we draw conclusions on compliance with laws and regulations.

Clifton Gunderson's reports (2006-1/FA-0014-1) are available on our website at <http://oig.pbgc.gov>.

The financial statements of the Single-Employer and Multiemployer Program Funds administered by PBGC as of September 30, 2004 were audited by other auditors whose report dated November 12, 2004 expressed an unqualified opinion on those financial statements. Their reports (2005-2/23182-2) are also available on our website.

Sincerely,

Robert L. Emmons
Inspector General

November 9, 2005



Independent Auditor's Report

To the Inspector General of the
Pension Benefit Guaranty Corporation

We have audited the accompanying statements of financial condition of the Single-Employer and Multiemployer Program Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of September 30, 2005, and the related statements of operations and changes in net position and cash flows for the year then ended. These financial statements are the responsibility of PBGC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Single-Employer and Multiemployer Program Funds administered by the PBGC as of September 30, 2004 were audited by other auditors whose report dated November 12, 2004, expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the fiscal year 2005 financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Program Funds administered by PBGC as of September 30, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

By law, PBGC's Single-Employer and Multiemployer Program Funds must be self-sustaining. As of September 30, 2005, PBGC reported in its financial statements net deficit positions (liabilities in excess of assets) in the Single-Employer and Multiemployer Program Funds of \$22,776 million and \$335 million, respectively. As discussed in Note 7 to the financial

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statements, losses as of September 30, 2005 for the Single-Employer and Multiemployer Programs that are reasonably possible as a result of unfunded vested benefits are estimated to be \$108,000 million and \$418 million, respectively. In addition, as discussed in Note 15 to the financial statements, subsequent to September 30, 2005, business and financial conditions significantly deteriorated for a sponsor of two large single-employer plans that may terminate. Had these plan sponsor events occurred prior to September 30, 2005, PBGC's Single-Employer Program net deficit would have increased by \$2,900 million. The 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 their short-term benefit obligations. However, as discussed in Note 1 to the financial statements, management believes that neither program at present has the resources to fully satisfy PBGC's long-term obligations to plan participants.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 9, 2005 on our consideration of PBGC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The financial statement highlights, management's discussion and analysis, actuarial valuation, annual performance report, and financial summary contain a wide range of data, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with PBGC officials. Based on this limited work, we found no material inconsistencies with the financial statements.

Clifton Anderson LLP

Calverton, Maryland
November 9, 2005