



# OFFICE OF INSPECTOR GENERAL AUDIT REPORT

## **Fiscal Year 2020 Financial Statement Audit Management Letter Report**

**Report No. AUD-2021-6  
February 1, 2021**

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February 1, 2021

MEMORANDUM

TO: Gordon Hartogensis  
Director

Patricia Kelly  
Chief Financial Officer

FROM: Nicholas J. Novak  
Inspector General *Nicholas J. Novak*

SUBJECT: Fiscal Year 2020 Financial Statements Audit Management Letter  
(AUD-2021-6)

I am pleased to transmit the attached Fiscal Year 2020 Financial Statement Audit Management Letter Report resulting from the Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2020 and 2019 Financial Statements (AUD-2021-02/FA-20-148-1).

We contracted with Ernst & Young LLP (EY), an independent certified public accounting firm, to perform the audit. EY 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. 19-03, "Audit Requirements for Federal Financial Statements."

This report describes deficiencies in internal control, other than a material weakness or a significant deficiency, and other matters. The issues noted are not significant; and therefore, the deficiencies were not required to be reported in the Independent Auditor's Report. However, the observations and recommendations offer opportunities for PBGC to strengthen its operations.

In addition to the seven prior years open recommendations, EY issued nine new recommendations totaling 16 open recommendation at the end of FY 2020. PBGC will continue working with EY to resolve these recommendations.

In your January 27, 2021 response to a draft of the Management Letter Report, you indicated that PBGC management generally agreed with the 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 III.

EY is responsible for the attached management letter dated December 9, 2020. We do not express opinions on PBGC's financial statements, internal control, or conclusions with laws 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: Alice Maroni  
David Foley  
Kristin Chapman  
Karen Morris  
Andy Banducci  
Robert Scherer  
Paul Chalmers  
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working world**

To the Inspector General and Management  
of the Pension Benefit Guaranty Corporation

In planning and performing our audit of the financial statements of the Pension Benefit Guaranty Corporation (PBGC or the Corporation) for the year ended September 30, 2020 and of internal control over financial reporting as of September 30, 2020, we noted certain matters involving internal control over financial reporting and its operation that we consider to be control deficiencies based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA) as implemented by OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* and in *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

A deficiency in internal control over financial reporting 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 misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for the oversight of the Corporation's financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented or detected on a timely basis.

During our audit, we noted deficiencies in internal control (as described above), which are summarized on the following pages. 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.

We have separately reported in our letter dated December 9, 2020 addressed to the Board of Directors, Management, and the Inspector General of the Corporation certain matters involving internal control and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

This communication is intended solely for the information and use of the Inspector General and Management of PBGC, the Office of Management and Budget, the Department of Treasury, and the Government Accountability Office and is not intended to be and should not be used by anyone other than these specified parties.

December 9, 2020

**I. Acronyms**

Acronym	Definition
ASTD	Actuarial Services and Technology Department
BD	Budget Department
CCRD	Corporate Controls and Reviews Department
EY	Ernst & Young, LLP
FOD	Financial Operations Department
IPVFB	Integrated Present Value of Future Benefits
ME	Multiemployer
OBA	Office of Benefits Administration
OIT	Office of Information Technology

**II. Executive Summary**

As part of the fiscal year (FY) 2020 financial statements audit, we tested internal controls over financial reporting and compliance with laws, regulations, contracts and grant agreements as of September 30, 2020, 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. 19-03, Audit Requirements for Federal Financial Statements (OMB Bulletin 19-03). Further, the criteria used to benchmark the testing and to reach the conclusions contained in this communication also included PBGC standards, procedures, policies, and government agency guidance published by the National Institute of Standards and Technology (NIST) through Presidential Decision Directives. Refer to Section V for a listing of Federal criteria documented in this communication.

The following is the breakdown by department of the results of our testing:

Type	BD	ASTD	OBA	FOD
Open recommendations as of 09/30/2019	3	0	4 <sup>1</sup>	0
Recommendations Closed during FY20 Audit	0	0	0	0
New FY20 Audit Recommendations	0	6	1	2
Open recommendations as of 09/30/2020	3	6	5	2

### III. Recommendations Issued During Prior Year Audits

Recommendation Number	Recommendation	Management Comment	Remediation Date
2017-06-03	Draft and submit for OMB approval funds control regulations that incorporate the required elements as described in OMB Circular No. A-11, Appendix H.	<b>PBGC received approval on December 17, 2020 from OMB that the Directive FM 10-4. PBGC Administrative Control of Funds is in accordance with the OMB Circular No. A-11 Appendix H.</b> The Budget Department (BD) is in the process of drafting the recommendation closure form (RCF) and compiling the supporting documentation to submit for review and closure determination by the Office of Inspector General (OIG).	6/30/2021
2017-06-04	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.	After BD conducted rigorous user acceptance testing on the Unfunded Request (UFR) and Reallocation Request tool in SharePoint, BD implemented the solution effectively October 26, 2020. This tool includes a log which shows all the requests received and the disposition of the UFR/Reallocation action(s). BD will be using the next 5 months to gather support to be submitted as part of the RCF package for review	6/30/2021

<sup>1</sup> Three recommendations were moved from the FY 2019 and 2018 financial statements audit and one recommendation was moved from the FY 2019 Audit of PBGC's Federal Information Security Modernization Act of 2014.

Recommendation Number	Recommendation	Management Comment	Remediation Date
		and closure determination by the OIG.	
2017-06-05	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.	BD conducted rigorous user acceptance testing on the Unfunded Request and Reallocation solution in SharePoint and deployed a solution that is undergoing cycle time. Because the completion of the procedures manual is dependent upon the solution being fully developed and operational, the procedures manual will be updated after the cycle time.	6/30/2021
2018-06-05 <sup>1</sup>	OBA should document enhanced account management procedures to ensure a thorough review of accounts is performed during the annual account recertification and that necessary accounts are recertified and implement compensating controls to verify inactive accounts are deactivated in accordance with PBGC policy.	On November 10, 2020, OBA submitted a RCF and supporting documentation for review and closure determination by the OIG.	11/10/2020
2020-02-10 <sup>1</sup>	OBA should obtain confirmation of access to server or in the event the access list cannot be shared, PBGC will pursue viable alternatives to include moving PBGC data to a separate server within the paying agent's data center.	On December 22, 2020, OBA submitted the RCF and supporting documentation for review by CCRD. By January 29, 2020, the RCF and package will be submitted for review and closure determination by the OIG.	12/31/2020
2020-02-11 <sup>1</sup>	Conduct an account recertification of Linux users and groups with access to PBGC PLUS data to verify that only authorized users have access and the privileges are appropriate.	On December 22, 2020, OBA submitted the RCF and supporting documentation for review by CCRD. By January 29, 2020, the RCF and package will be submitted for review and closure determination by the OIG.	12/31/2020

Recommendation Number	Recommendation	Management Comment	Remediation Date
2020-05-01 <sup>1</sup>	Maintain a valid agreement for all interconnections, and ensure that agreements are updated as necessary, reviewed annually, and re-issued prior to or upon expiration or upon a major change to ensure appropriate security and privacy controls are implemented.	On December 18, 2020, OBA submitted a RCF for 2020-05-01 including supporting documentation for review and closure determination by the OIG.	12/31/2020

IV. Recommendations Issued during the FY20 Audit

Recommendation Number (Pending)	Recommendation	Management Comment	Remediation Date
2021-06-01	Conduct experience study over for the Spouse age difference for seriatim and phase out liability for unlocatable missing participant assumptions.	PBGC agrees with these recommendations. During FY20, the Actuarial Services and Technology Department (ASTD) developed a schedule for studying all assumptions and methods within the Integrated Present Value of Future Benefit (IPVFB) inventory, and this schedule was based in part on the critical status of the assumption. The results of the sensitivity analysis on the spouse age difference and phase-out of liability assumptions, which was conducted during fiscal year (FY)2020, show that these assumptions have almost no impact to the overall IPVFB liability. These assumptions were assigned a low critical status and the studies of the spousal age difference and phase-out assumptions are currently scheduled to be conducted during FY 2024 and FY 2025, respectively.	6/30/2025
2021-06-02	Document rationale for and/or update the seriatim marital status and smoothing adjustment for lump sum benefit projections assumptions.	<p>The smoothing adjustment for lump sum benefit projections is included in a study of the single-employer benefit projections, and this study is currently scheduled to be completed by FY 2023.</p> <p>ASTD will provide documentation of the rationale behind the seriatim marital status assumption.</p>	6/30/2023

Recommendation Number (Pending)	Recommendation	Management Comment	Remediation Date
2021-06-03	PBGC conduct an experience study over the default attained age assumption.	<p>PBGC agrees with this recommendation. In FY 2020, PBGC initiated a comprehensive analysis of the multiemployer (ME) program assumptions, including subcase count, subcase attained age, subcase liability distribution, expected retirement age, expected contribution, normal cost projection, new entrants, administrative expenses, percent male, asset blend, and expected return on assets. The default attained age assumption will be included in these studies and ASTD will prepare appropriate documentation of the analysis.</p> <p>Please note that PBGC's ability to perform experience studies for the ME program is limited because PBGC does not have seriatim data for ME plans. Our ability to study ME experience is limited to plan level data mostly contained within plans' actuarial valuation reports.</p>	6/30/2021
2021-06-04	PBGC should conduct the appropriate analyses/research/studies to ensure the reasonableness of percentages and thresholds used for promotion and document the rationale behind these analyses.	PBGC agrees with these recommendations. ASTD will conduct the appropriate analysis and document the rationale behind the percentages and thresholds used for promoting plans to Individual Participant Valuation (IPV) status.	6/30/2022
2021-06-05	PBGC should develop a schedule for continuous monitoring over thresholds used within key controls and provide details about the time and the frequency of this schedule.	We will also establish a frequency by which we will continue to analyze these thresholds in the future.	6/30/2022

Recommendation Number (Pending)	Recommendation	Management Comment	Remediation Date
2021-06-06	<p>EY recommends PBGC formally document the following for all controls that use thresholds as part of review procedures:</p> <ul style="list-style-type: none"> <li>▸ The detail analysis performed to determine the reasonableness of thresholds applied as part of their review of higher risk or material account balances and to document the continued assessment level of sensitivity and precision of these thresholds.</li> </ul>	<p>PBGC agrees with this recommendation. FOD will revise our relevant policies and procedures to reflect this new process.</p>	8/31/2021
2021-06-07	<p>EY recommends the PBGC develop the following:</p> <ul style="list-style-type: none"> <li>▸ Procedures to analyze or test the quality of participants data from plans processed prior to the implementation of improved controls to ensure any historical errors or trends that may impact the PVFB liability amount are identified and resolved.</li> </ul>	<p>PBGC agrees with this recommendation. ASTD will develop procedures to test the data quality of participants from plans processed prior to the implementation of improved controls surrounding the quality of IPVFB data that are in place today.</p>	6/30/2022

Recommendation Number (Pending)	Recommendation	Management Comment	Remediation Date
2021-06-08	<p>EY recommends that the Financial Operations Department (FOD) should formally document their rationale for critical alerts that need to be monitored. In addition, develop and implement a process to track, monitor and resolve critical alerts related to processing failures. Specifically, FOD should complete the following:</p> <ul style="list-style-type: none"> <li>▶ Review their current listing of critical alerts and identify the criteria for each alert on when it needs to be escalated for closure (Days outstanding, Impact of Failure, etc.)</li> <li>▶ Establish a formal frequency for of review for each alert based on escalation requirements, with appropriate management review and sign-off.</li> <li>▶ Establish a formal documentation and resolution process for escalated alerts.</li> </ul>	<p>PBGC agrees with this recommendation. FOD agrees that it has not documented the process we have had in place for years to review notifications and alerts. As we discussed with the OIG/EY, Cron-job/Concurrent Program notifications are typically self-correcting by the user who caused the notification (e.g., user tries to print a report and the printer is turned off). The alerts are a customized, proactive approach (Heads-up notifications) FOD took to identify potential transactions that may or may not require further review or additional information. These alerts are distributed to the appropriate users and supervisors for further action, as required. FOD agrees to document this understanding in writing and consider:</p> <ul style="list-style-type: none"> <li>• Reviewing the listing of critical alerts and identify criteria to further review or escalate alerts;</li> <li>• Establishing a formal frequency to review and/or escalate alerts based on established criticality with appropriate management review and sign-off, if necessary; and</li> <li>• Establishing a formal documentation and resolution process for escalated alerts that require escalation and resolution.</li> </ul>	9/30/2021

Recommendation Number (Pending)	Recommendation	Management Comment	Remediation Date
2021-06-09	<p>EY recommends that PBGC management should correct the identified deficiency in their Death Master File (DMF) process programming logic and deploy the modification to the production environment. In the interim, PBGC should conduct subsequent monitoring to ensure individuals who are both on the stop payment log and the Death match file are in the correct payee status.</p>	<p>PBGC agrees with this recommendation. OBA will implement a fix to the Spectrum system in the next Operations and Maintenance release to correct the identified deficiency in the DMF process programming logic and deploy the modification to the production environment. OBA will provide the target release date when release planning has been complete.</p> <p>In the interim, OBA has modified the "Active Line Status/DOD data fix" cron job to mitigate the risk. After the monthly Death Match Run, the cron job will query the system in search for Customers with an Active Benefit and a date of death (DOD). Technology/Risk Management Division (TRMD) will forward the results to Participant Services Department (PSD) so that PSD can terminate the benefit and send the Benefit End date to the paying agent.</p> <p>To ensure that the interim and permanent fixes are working, PSD will implement a review of the DOD Ledger Report to ensure that the appropriate actions are taking place when notification of the date of death is received.</p>	10/31/2021

**V. Criteria**

- GAO-14-704G, Standards for Internal Control in the Federal Government (Green Book)
- 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
- Guidance published by the National Institute of Standards and Technology (NIST), and through Presidential Decision Directives
- PBGC standards, procedures, and policies

VI. Management Response



Office of the Director

January 27, 2021

To: Nicholas J. Novak  
Inspector General

From: Gordon Hartogensis  
Director

Gordon Hartogensis  
Hartogensis

Digitally signed by  
Gordon Hartogensis  
Date: 2021.01.27  
11:44:29 -0500

Subject: Response to Draft FY 2020 Management Letter Report

PBGC management appreciates the opportunity to comment on the Draft FY 2020 Management Letter Report issued as part of the FY 2020 financial statement audit.

We agree with the draft report's new recommendations. For your convenience, we are separately providing updates regarding the recommendations identified in the management letter via an electronic attachment based on your report's format. These include our planned corrective actions and estimated completion dates for each new recommendation and updates regarding prior year recommendations referenced in Section III of the Draft FY 2020 Management Letter Report.

Please contact Frank Pace should you have any questions.

cc:

Kristin Chapman, Chief of Staff  
Patricia Kelly, Chief Financial Officer  
Andy Banducci, Chief Policy Officer  
Paul Chalmers, Acting General Counsel  
David Foley, Chief of Benefits Administration  
Alice Maroni, Chief Management Officer  
Karen Morris, Chief of Negotiations and Restructuring  
Robert Scherer, Chief Information Officer  
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Theodore Winter, Financial Operations Department