



# OFFICE OF INSPECTOR GENERAL AUDIT REPORT

**Fiscal Year 2022  
Financial Statement Audit  
Management Letter Report**

**Report No. AUD-2023-07  
January 13, 2023**

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January 13, 2023

**MEMORANDUM**

**TO:** Gordon Hartogensis  
Director

Patricia Kelly  
Chief Financial Officer

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

**SUBJECT:** Fiscal Year 2022 Financial Statement Audit Management Letter  
(AUD-2023-7)

I am pleased to transmit the attached Fiscal Year 2022 Financial Statement Audit Management Letter Report resulting from the Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2022 and 2021 Financial Statements.

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. 21-04, "Audit Requirements for Federal Financial Statements."

During the audit EY 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 operations. This management letter summarizes these deficiencies and recommendations. The issues noted in this report are not significant; and therefore, these control deficiencies were not required to be reported in the Independent Auditor's Report issued on November 15, 2022.

In FY 2022 EY had issued nine new recommendations and closed five prior years' recommendations with the total of 16 open recommendation remaining at the end of FY 2022. EY will continue working with PBGC to resolve these recommendations.

In your January 12, 2023 response to a draft of the Management Letter Report, you indicated that PBGC management 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 November 15, 2023. 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  
John Hanley  
Robert Scherer  
Ann Orr  
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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, 2022 and of internal control over financial reporting as of September 30, 2022, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States; and in accordance with the provisions Office of Management and Budget (OMB) Bulletin 22-01, *Audit Requirements for Federal Financial Statements*, 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 United States Government Accountability Office (the Green Book).

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 material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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 charged with governance.

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.

In accordance with Government Auditing Standards, we also have issued our report dated November 15, 2022, addressed to the Board of Directors, Management, and the Office of the Inspector General on our audit of the Corporation's internal control over financial reporting.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing. This letter is an integral part of an audit performed in accordance with GAS in considering PBGC's internal control over financial reporting. Accordingly, this letter is not suitable for any other purpose.

November 15, 2022

I. Acronyms

Acronym	Definition
ASTD	Actuarial Services and Technology Department
EY	Ernst & Young, LLP
FOD	Financial Operations Department
FSG	Financial Statement Generator
IPVFB	Integrated Present Value of Future Benefits
ITIOD	Information Technology Infrastructure Operations Department
ME	Multiemployer
OIT	Office of Information Technology
SE	Single Employer
SFA	Special Financial Assistance
SOD	Segregation of Duties
TFA	Traditional Financial Assistance

II. Recommendations breakdown by department:

Type	ASTD	FOD	OIT	Total
Open recommendations as of 09/30/2021	8	0	4	12
Recommendations Closed during FY22 Audit	2	0	3	5
New FY22 Audit Recommendations	0	7	2	9
Open recommendations as of 09/30/2022	6	7	3	16

III. Recommendations Issued during Prior Year Audits

Finding/condition	Recommendation	Management comment	Remediation date
<p>Experience studies for the Spouse age difference for seriatim and phase out liability for unlocatable missing participant assumptions are out of date.</p> <p>PBGC was unable to provide support and/or justification for the seriatim marital status and smoothing adjustment for lump sum benefit projections assumptions</p>	<p><i>2021-06-01 (ASTD)</i>  Conduct experience study over for the Spouse age difference for seriatim and phase out liability for unlocatable missing participant assumptions.</p> <p><i>2021-06-02 (ASTD)</i>  Document rationale for and/or update the seriatim marital status and smoothing adjustment for lump sum benefit projections assumptions.</p>	<p>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)2021, 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.</p> <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. ASTD will provide documentation of the rationale behind the seriatim marital status assumption.</p>	<p>6/30/2025</p> <p>6/30/2023</p>

Finding/condition	Recommendation	Management comment	Remediation date
<p>A sample-based approach was utilized to validate the changes identified and resulted in the acknowledgment of exceptions as well as unexplained abnormalities. The exceptions represent the result of FY22 testing procedures.</p>	<p>2022-06-01 (ASTD)  PBGC should implement procedures to periodically analyze the participant/beneficiary data to identify significant and unusual or abnormal changes. From this type of activity, PBGC should investigate participants to validate the reasonableness for the change and the adequacy of the data used for benefit calculation and liability determination and make corrections to the participant data as necessary.</p>	<p>PBGC agrees with this recommendation. In FY22, ASTD developed procedures to review customer data based on status changes that are identified from one valuation date to the next (see RCF 2022-06-01 submitted September 2022). As part of the procedures, ASTD has implemented a quarterly review and approval of the data used for the financial statement valuation. ASTD will continue to refine the procedures to address this recommendation.</p>	<p>6/30/2023</p>
<p>In FY21, ASTD (contracted with Bolton), conducted an experience study over the PVFB expected retirement age versus the actual retirement age. ASTD reviewed the Bolton study results which suggested the XRA needed to be increased due to participants retiring at later ages than reported in prior years. ASTD accepted the conclusion and will be performing an additional analysis (in a follow up XRA study) on these findings in FY22. ASTD expects the follow up study to result in recommended changes to the current assumption.</p>	<p>2022-06-02 (ASTD)  Conduct in depth follow-up experience study mentioned within the RCF 2021-02-01 rationale memorandum over expected retirement age vs actual retirement age and implement changes/updates to the assumption based on study results.</p>	<p>PBGC agrees with this recommendation. ASTD has completed this experience study and it is currently in final review. ASTD will implement any appropriate changes to this assumption that result from the study.</p>	<p>6/30/2023</p>

Finding/condition	Recommendation	Management comment	Remediation date
<p>In FY21, as part of Test of Control (TOC) procedures, EY identified instances where minimal documentation/support was formally documented or retained to evidence review steps performed over key controls, controls that involve significant judgement, or controls where the steps performed are unique to a process/plan. PBGC currently documents review evidence through the use of checklists, email support, and signatures, however, the details around how the review steps are executed (ex: reconciling two numbers from certain documents) is often not formally documented as part of the control performance.</p>	<p><i>2022-06-03 (ASTD)</i>  Implement procedures to formally retain, review documentation over internal controls that evidences how the review steps were performed and how conclusions (especially judgmental decisions) were drawn. Examples would be tickmarks, text boxes, comments, recalculations, reconciliations, supporting files researched, etc.</p> <p><i>2022-06-04 (ASTD)</i>  Develop more detailed checklists that outline how steps are completed and not just what needs to be completed.</p>	<p>PBGC agrees with these recommendations. ASTD will develop improvements to existing review procedures, including the formal documentation of review notes and more detailed review checklists.</p>	<p>9/30/2023</p>
<p>Roles and responsibilities assigned to the same user from different applications and/or PBGC business units were not evaluated for segregation of duty (SOD) impacts related to end-to-end business process risks.</p> <p>Further, for the established Information Technology Infrastructure Operations Department (ITIOD) SOD automated rules process a misconfiguration was identified that resulted in 13 users maintaining roles that violated existing segregation of duty rules but were not tracked or resolved by management.</p>	<p><i>2021-02-10 (OIT)</i>  Enhance existing monitoring controls to mitigate risks associated with required role assignments that violate segregation of duty requirements.</p>	<p>PBGC agrees with this recommendation. ITIOD has created a mechanism where new GetITAccess requests are automatically evaluated for conflicts, and based on the 06/30/2022 designated conflict action, the request is automatically denied, a warning added, or an additional approval required.</p> <p>ITIOD is actively expanding use of the CyberArk privileged access management system for elevated access to business applications which should enhance monitoring controls and mitigate risks associated with role assignments that violate existing segregation of duty rules.</p>	<p>6/30/2023</p>

IV. Recommendations Issued during the FY22 Audit

Finding/condition	Recommendation	Management comment	Remediation date
<p>The account balance per the State Street Bank Statement for Fund 3822 did not reconcile to the amount reported in the ledger and was erroneously stated by \$501.6M and needed a correcting entry to reduce the benefit payment liability and credit cash.</p>	<p>2023-07-01 (FOD)                      Management should ensure for the monthly reconciliation of benefit payments to benefit payment expense the date range for the State Street Single/Multi Report encompasses the entire month to capture all transactions and reflect them appropriately in the financial statement records.</p> <p>2023-07-02 (FOD)                      For the GL Account 112007 - Cash Regular, PBGC should design and implement a new control whereby PBGC performs monthly reconciliations of the Fund 3822 State Street Bank Statements to the accounting ledger balances.</p>	<p>PBGC agrees with these recommendations. Management will ensure that the date range for the State Street Single/Multi Report encompasses the entire month when we prepare the monthly Benefit Payment Report to capture all transactions and reflect them appropriately in the financial statement records.</p> <p>For the GL Account 112007 - Cash Regular for Accounting Plans, PBGC (FOD Investment Accounting Branch) will design and implement a new key control whereby PBGC performs monthly reconciliations of the Fund 3822 State Street Bank Statements to the accounting ledger balances starting October 2022.</p>	<p>2/28/2023</p>

Finding/condition	Recommendation	Management comment	Remediation date
<p>PBGC became aware of an error in Fund 3801 PBGC Holding Account that is held at State Street. Specifically, that the fair values of certain classes of marketable investments (excluding the Short-Term Investment as it was valued correctly) had not been updated (i.e., marked-to-market) as of September 30, 2022.</p>	<p><i>2023-07-03 (FOD)</i>  PBGC should direct State Street to value the marketable securities in Fund 3801 to use automated pricing, consistent with how all of PBGC's Fund portfolios managed by State Street are valued.</p> <p><i>2023-07-04 (FOD)</i>  Monthly, PBGC should compare the unit price change month to month to ensure that the unit price has been updated by State Street.</p> <p><i>2023-07-05 (FOD)</i>  Quarterly, PBGC should compare the State Street unit price of the securities in Fund 3801 to an independent PBGC pricing service (e.g., ICE Remote Plus) to confirm the State Street unit price. If a pricing variance is above an absolute value of 3% (same threshold currently used between State Street and individual investment managers), PBGC should contact State Street to confirm its price and investigate/resolve the pricing variance.</p>	<p>PBGC agrees with these recommendations. PBGC has directed State Street to value the marketable securities in Fund 3801 to use automated pricing, consistent with how all of PBGC's Fund portfolios managed by State Street are valued.</p> <p>Starting October 2022 month-end closing, PBGC will compare the security unit price change for the entire security holdings in Fund 3801 (excluding STIF since it has a stable unit price), month to month to ensure that the unit price has been updated by State Street.</p> <p>Quarterly, PBGC will compare the State Street unit price of the securities in Fund 3801 to an independent PBGC pricing service (e.g., ICE Remote Plus) to confirm the State Street unit price. If a pricing variance is above an absolute value of 3% (same threshold currently used between State Street and individual investment managers), PBGC will contact State Street to confirm its price and investigate/resolve the pricing variance.</p>	<p>6/30/2023</p>

Finding/condition	Recommendation	Management comment	Remediation date
<p>PBGC has not yet performed an evaluation of indirect expenses that should be allocated to the Special Financial Assistance (SFA) program. All current indirect expenses are allocated to the Single Employer (SE) and Traditional Financial Assistance (TFA). This represents an over allocation of direct expenses to the SE and TFA programs and an under allocation to the SFA program. Since SFA administrative expenses are funded from appropriated dollars, there is an increase importance for PBGC to properly monitor and allocate related costs to that program.</p>	<p>2023-07-06 (FOD)  Annually re-evaluate allocation methodologies considering any current and future year developments which may impact the execution of PBGC's operations such as proper allocation of direct and indirect expenses to the SFA program.</p>	<p>PBGC agrees with this recommendation. PBGC will annually re-evaluate allocation methodologies considering any current and future year developments which may impact the execution of PBGC's operations such as proper allocation of direct and indirect administrative expenses to the SFA program.</p>	<p>9/30/2023</p>
<p>PBGC investigated and identified that the report utilized to compile the note disclosure improperly included a trial balance account for the fair market value adjustment that should have been excluded for the U.S. Government Securities. PBGC management calculated the amount of the correction and made the adjustment in the note disclosure for September 30, 2022, prior to the issuance of the financial statements.</p>	<p>2023-07-07 (FOD)  Management should correct and validate that the underlying report utilized in the compilation of the line item impacted, U.S. Government Securities, is complete and accurate.</p>	<p>PBGC agrees with this recommendation. FOD has already fixed the Financial Statement Generator (FSG) report that created this Footnote Disclosure discrepancy. Going forward we will continue to validate this report is complete and accurate for each reporting period.</p>	<p>5/31/2023</p>

Finding/condition	Recommendation	Management comment	Remediation date
Four (4) users have SOD conflicts first reported on 6/24 and 8/16 that did not have timely resolution by management.	2023-07-08 (OIT) Implement a process to revoke access to those user accounts whose SOD violations have not been resolved in a timely manner as defined by PBGC management.	PBGC agrees with this recommendation. ITIOD will implement a process to automatically revoke or alert on access to those user accounts whose SOD violations have not been resolved in a timely manner.	6/30/2023
Four (4) BigFix configuration changes did not have ServiceNow tickets to document the approval of the configuration change deployed by the BigFix tool.	2023-07-09 (OIT) We recommend PBGC management follow the established change management process for BigFix change deployments.	PBGC agrees with this recommendation. ITIOD will develop a process to connect ServiceNow tickets to BigFix activity and establish automation to report on exceptions.	6/30/2023

**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



**Pension Benefit Guaranty Corporation**  
445 12th Street SW, Washington, DC 20024-2101

January 12, 2023

To: Nicholas J. Novak  
Inspector General

From: Gordon Hartogensis  
Director

**Gordon Hartogensis**  
Digitally signed by Gordon Hartogensis  
Date: 2023.01.12 17:18:50 -05'00'

Subject: Response to Draft FY 2022 Management Letter Report

PBGC management appreciates the opportunity to comment on the Draft FY 2022 Management Letter Report issued as part of the FY 2022 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 2022 Management Letter Report.

Please contact Frank Pace should you have any questions.

cc:

Kristin Chapman, Chief of Staff  
Patricia Kelly, Chief Financial Officer  
Ann Orr, Chief Policy Officer  
Karen Morris, General Counsel  
David Foley, Chief of Benefits Administration  
Alice Maroni, Chief Management Officer  
John Hanley, Acting Chief of Negotiations and Restructuring  
Robert Scherer, Chief Information Officer  
Frank Pace, Director Corporate Controls and Reviews Department  
Walter Luiza, Acting Director Financial Operations Department