



# OFFICE OF INSPECTOR GENERAL AUDIT REPORT

## **Fiscal Year 2021 Financial Statement Audit Management Letter Report**

**Report No. AUD-2022-6  
January 14, 2022**

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January 14, 2022

MEMORANDUM

TO: Gordon Hartogensis  
Director

Patricia Kelly  
Chief Financial Officer

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

SUBJECT: Fiscal Year 2021 Financial Statement Audit Management Letter  
(AUD-2022-6)

I am pleased to transmit the attached Fiscal Year 2021 Financial Statement Audit Management Letter Report resulting from the Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 2021 and 2020 Financial Statements (AUD-2022-02/FA-21-155-1).

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. 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, the deficiencies were not required to be reported in the Independent Auditor's Report.

In addition to eight open recommendations from the prior year, in FY 2021 EY had issued four new recommendations with the total of 12 open recommendation at the end of FY 2021. EY will continue working with PBGC to resolve these recommendations.

In your January 13, 2022 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 November 15, 2021. 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  
Russell Dempsey  
Robert Scherer  
Ann Orr  
Theodore Winter  
Frank Pace



Ernst & Young LLP 1775  
Tysons Blvd Tysons,  
VA 22102

Tel: +1 7 03 747 1000  
Fax: +1 7 03 747 0100  
ey.com

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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, 2021 and of internal control over financial reporting as of September 30, 2021, 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 November 15, 2021 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.

Ernst & Young LLP  
November 15, 2021

**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
ONR	Office of Negotiations and Restructuring

**II. Executive Summary**

As part of the fiscal year (FY) 2021 financial statements audit, we tested internal controls over financial reporting and compliance with laws, regulations, contracts and grant agreements as of September 30, 2021, 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. 21-04, Audit Requirements for Federal Financial Statements (OMB Bulletin 21-04). 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	OIT	BD	ASTD	OBA
Open recommendations as of 09/30/2020	4 <sup>1</sup>	3	6	5
Recommendations Closed during FY21 Audit	0	3	2	5
New FY21 Audit Recommendations	0	0	4	0
Open recommendations as of 09/30/2021	4	0	8	0

### III. Open Recommendations Issued During Prior Year Audits

Recommendation Number	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 fiscal year (FY) 2020, 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 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. The smoothing adjustment for lump sum benefit projections is included	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.		6/30/2023

<sup>1</sup> OIT Recommendations issued during the prior year were related to a significant deficiency were not included within the PY management letter and have been revised for FY21

Recommendation Number	Recommendation	Management Comment	Remediation Date
		<p>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>	
2021-06-04	<p>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.</p>	<p>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. We will also establish a frequency by which we will continue to analyze these thresholds in the future.</p>	6/30/2022
2021-06-05	<p>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.</p>		6/30/2022
2021-02-07	<p>Increase the frequency of the periodic review of users with known separation duties violation to determine management concurrence with the appropriateness of the access and their risk acceptance.</p>	<p>PBGC agrees with this recommendation. PBGC has updated the Risk Acceptance (RA) work instruction to establish a six-month time limit to any RAs for separation of duties (SoD) conflicts. OIT is evaluating policies and procedures that may need to be updated in order to support limitations on RAs related to SoD and the updated recertification process.</p>	06/30/2022
2021-02-10	<p>Enhance existing monitoring controls to mitigate risks associated with required role assignments that violate separation 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 designated conflict action, the request is automatically denied, a warning added, or an additional approval required.</p>	06/30/2022

Recommendation Number	Recommendation	Management Comment	Remediation Date
		<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 separation of duty rules.</p>	
2021-02-05	<p>Developing and updating segregation of duty matrices to reflect the risk of multiple role assignments based on the current business operations of PBGC within the CMS systems.</p>	<p>On 11/17/2021, OIG issued a memorandum stating, "We reviewed the closure package for 2021-02-05. We have concluded there is insufficient evidence to close this recommendation because corrective actions have not been completed for CMS and users were identified with conflicts. This recommendation will remain open."</p>	06/30/2022 <sup>2</sup>
2021-02-06	<p>Reviewing existing role assignments based on existing OBA conflict matrices and updated CMS segregation of duty matrices for existing conflicts and remediate them as appropriate.</p>	<p>PBGC agrees with these revised recommendations. OIT is collaborating with OBA to ingest the CMS system conflict rules into the new SoD framework which will accommodate resolution of current conflicts and ongoing enforcement of the conflict rules.</p>	06/30/2022

<sup>2</sup> This recommendation was revised in FY21; thus, the remediation date has been extended

IV. Recommendations Issued during the FY 2021 Audit

Recommendation Number (Pending)	Recommendation	Management Comment	Remediation Date
2022-06-01	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.	PBGC agrees with this recommendation. ASTD will develop procedures to review customer data based on status changes that are identified from one valuation date to the next.	9/30/2022
2022-06-02	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.	PBGC agrees with this recommendation. ASTD is planning to continue the single-employer XRA study throughout FY 2022 and will implement any appropriate changes to this assumption that result from the study.	12/31/2022
2022-06-03	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.	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.	9/30/2023
2022-06-04	PBGC currently documents review evidence through the use of checklists, email support, and signatures, however, the details around how the review steps is executed (ex: reconciling two numbers from certain documents) is often not formally documented as part of the control performance. We recommend PBGC develop more detailed checklists that outline how steps are completed and not just what needs to be completed.		9/30/2023

**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

January 13, 2022



Office of the Director

To: Nicholas J. Novak  
Inspector General

From: Gordon Hartogensis  
Director

Gordon  
Hartogensis

Digitally signed by Gordon  
Hartogensis  
Date: 2022.01.13 17:16:42  
+0600

Subject: Response to Draft FY 2021 Management Letter Report

PBGC management appreciates the opportunity to comment on the Draft FY 2021 Management Letter Report issued as part of the FY 2021 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 2021 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  
Russell Dempsey, 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  
Frank Pace, Corporate Controls and Reviews Department  
Theodore Winter, Financial Operations Department