



# OFFICE OF INSPECTOR GENERAL AUDIT REPORT

**Fiscal Year 2023  
Financial Statement Audit  
Management Letter Report**

**Report No. AUD-2024-04  
December 21, 2023**

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December 21, 2023

**MEMORANDUM**

**TO:** Gordon Hartogensis  
Director

Patricia Kelly  
Chief Financial Officer

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

**SUBJECT:** Fiscal Year 2023 Financial Statement Audit Management Letter  
(AUD-2024-04)

I am pleased to transmit the attached Fiscal Year 2023 Financial Statement Audit Management Letter Report resulting from the Audit of the financial statements of the Pension Benefit Guaranty Corporation (PBGC or the Corporation) for the year ended September 30, 2023 and of internal control over financial reporting as of September 30, 2023.

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. 24-01, "Audit Requirements for Federal Financial Statements."

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 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 Reports issued on November 15, 2023.

In FY 2023 EY had issued four new recommendations and closed 14 prior years' recommendations with the total of six open recommendations remaining at the end of FY 2023. EY will continue working with PBGC to resolve these recommendations.

In your December 21, 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 and the conclusions expressed therein. 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, Chief Management Officer, OMA  
David Foley, Chief of Benefit Administration, OBA  
Kristin Chapman, Chief of Staff, OD  
Karen Morris, General Counsel, OGC  
John Hanley, Chief of Negotiations & Restructuring, ONR  
Robert Scherer, Chief Information Officer, OIT  
Ann Orr, Chief Policy Officer, OPEA  
Walt Luiza, Director, FOD  
Lisa Carter, Director, CCRD



Ernst & Young LLP  
1775 Tysons Blvd  
Tysons, VA 22102  
Tel: +1 703 747 1000  
Fax: +1 703 747 0100  
ey.com

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, 2023 and of internal control over financial reporting as of September 30, 2023, 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 24-01, *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) and other matters, 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, 2023, 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, 2023

I. Acronyms

Acronym	Definition
ASTD	Actuarial Services and Technology Department
COR	Contracting Officer's Representative
EY	Ernst & Young, LLP
FOD	Financial Operations Department
FY	Fiscal Year
IPVFB	Integrated Present Value of Future Benefits
ITIOD	Information Technology Infrastructure Operations Department
OIT	Office of Information Technology
ONR	Office of Negotiations and Restructuring
SFA	Special Financial Assistance
SOD	Segregation of Duties

II. Recommendations breakdown by department:

Type	ASTD	FOD	ONR	OIT	Total
Open recommendations as of 09/30/2022	6	7	0	3	16
Recommendations Closed during FY 23 Audit	5	7	0	2	14
New FY 23 Audit Recommendations	2	0	1	1	4
Open recommendations as of 09/30/2023	3	0	1	2	6

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>2021-06-01 (ASTD)  Conduct experience study over for the Spouse age difference for seriatim and phase out liability for unlocatable missing participant assumptions.</p>	<p>During fiscal year (FY) 2023, the Actuarial Services and Technology Department (ASTD) completed a study of the deferred participant spouse age difference and marital status assumptions. This study resulted in no changes to either assumption. The study was submitted to EY in the Recommendation Completion Form (RCF) package for FS-2021-06-02 and this recommendation was closed on October 25, 2023. PBGC agrees with the recommendation to conduct an experience study over the phase-out liability for unlocatable missing participants assumption. This assumption is scheduled to be studied during FY 2025, along with the phase-out liability for unlocatable deferred participants assumption. The results of the sensitivity analysis on the phase-out of liability assumptions, which was conducted during FY 2021, show that these assumptions have almost no impact to the overall Integrated Present Value of Future Benefits (IPVFB) liability. These assumptions were assigned a low critical status, making them a lower priority compared to other studies that ASTD has been working on.</p>	<p>6/30/2025</p>

<p>For the established <b>Information Technology Infrastructure Operations Department (ITIOD) Segregation of Duties (SOD)</b> automated ruleset process a misconfiguration was identified that resulted in 13 users maintaining roles that violated existing segregation of duty rulesets 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 separation of duty requirements.</p>	<p>PBGC agrees with this recommendation. In FY 2022, PBGC integrated the SoD framework with GetITAccess so that all new requests for access are automatically evaluated for SoD conflicts. If a conflict is detected either the request will be automatically denied or the approving managers, contracting officer's representatives (COR), and service owners will be alerted that there is a conflict prior to approval, based upon the conflict type. For accepted SoD risks, they must be evaluated if still appropriate at least every six months. If the risk continues to be justified, a new risk acceptance must be signed.</p> <p>PBGC is testing and evaluating methods, including Splunk reporting, to additionally monitor the activities of users who have role assignments that violate SoD rules, but are accepted due to justified business purposes. This work will include extensive cooperation and coordination with business units to determine what roles, when in conflict, should be subject to additional monitoring, changes to related workflows, and any training that may need to be provided to affected staff.</p> <p>Currently, PBGC is focusing on those systems that have an active risk acceptance in place (Spectrum, ARES, and CFS). Additionally, PBGC plans to update processes and procedures (e.g., the</p>	<p>6/30/2024</p>
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Finding/condition	Recommendation	Management Comment	Remediation date
		Security Operations Operational Guide) as appropriate to respond to alerts generated by SoD-related monitoring.	

**IV. Recommendations Issued during the FY23 Audit**

Finding/condition	Recommendation	Management Comment	Remediation date
<p>During FY 2023, a pension plan was approved to receive Special Financial Assistance (SFA). As part of the agency's review of the application PBGC broke out various sub-committees to review different plan aspects and assumptions. The Benefit Payments and Contribution Projections subcommittee was responsible for reviewing the death audit. PBGC noted the plan performs two death matches: 1) annual death match for actives, inactive vested, and alternate payees not in pay status, and 2) weekly death matches for retirees, beneficiaries, and disabled participants. The plan performed a death match for the first group (actives, inactive vested) in January 2021 and this was mentioned as utilized within the application census data. However, it was 1) not within the one year requirement (i.e., 15 months prior to the plan's measurement date instead of within one year) and 2) not reflected in the sub-committee chart displaying the removal of participants within those</p>	<p><i>2024-04-01 (ONR)</i>  Maintain sufficient documentation to ensure that all plans applying for SFA have complied with the Final Rule requirements to conduct a plan level death audit within one year of the plan's measurement date.</p>	<p>The Office of Negotiations and Restructuring (ONR) has updated its procedures to ensure and document that applying plans have complied with the Final Rule requirements to conduct a plan level death audit within one year of the plan's measurement date.</p>	<p>3/31/2024</p>

Finding/condition	Recommendation	Management Comment	Remediation date
<p>categories (such documentation was not required under agency guidelines and procedures in place at that time). Subsequently, the plan also performed a death match in January 2022 (within the year requirement) on the same actives, inactive vested population; the results of this death match were not incorporated in the census data (2021) used in the SFA application. The plan confirmed they adjusted the SFA census for the 2nd group (e.g., retirees, beneficiaries) based on the result of their death match. PBGC did not document when the death match was performed.</p>			

Finding/condition	Recommendation	Management Comment	Remediation date
<p>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 the actuarial case memo/report (ACM/ACR) control which involves procedures requiring judgement or decisions unique to the plan being made.</p> <p>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) are often not formally documented as part of the control performance.</p> <p>Although PBGC has identified planned improvements, to be effective in FY 2024 Q1, as of 9/30/2023, the remediation has not yet occurred.</p>	<p><i>2024-04-02 (ASTD)</i>  Implement procedures to formally retain review documentation that evidences how the review steps were performed and how conclusions (especially judgmental decisions) were drawn. Examples would be tickmarks, text boxes, comments, re-calculations, reconciliations, supporting files researched, etc.</p> <p><i>2024-04-03 (ASTD)</i>  Develop more detailed checklists that outline how steps are completed and not just what needs to be completed.</p>	<p>During FY 2023, ASTD went through our review procedures for each of our controls and made improvements in areas that were lacking documentation. ASTD submitted RCFs for recommendations 2022-06-03 and 2022-06-04, which include the same language as these two new recommendations. As described in the finding/condition, EY agreed with ASTD's remediation efforts for all controls except for those related to the review over the Actuarial Case Report (ACR). PBGC agrees with the new recommendations as they relate to the review over the ACR. ASTD has developed improvements to the existing ACR review procedures, including the formal documentation of review notes and more detailed review checklists. The improvements will be implemented in Q2 of FY 2024.</p>	<p>6/30/2024</p>

Finding/condition	Recommendation	Management Comment	Remediation date
One of 20 privileged users' entitlement was not included in the FY 2023 Account and Entitlement Recertification.	<i>2024-04-04 (OIT)</i> We recommend PBGC management continuously monitor users' Active Directory settings to make sure the system can recognize all users and entitlements that need to be recertified in a timely manner.	PBGC agrees with the recommendation and has already taken steps to remediate the identified condition.	6/30/2024

**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



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

Office of the Director

December 21, 2023

To: Nicholas J. Novak  
Inspector General

From: Gordon Hartogensis Gordon Hartogensis  
Director Hartogensis  
Digitally signed by  
Gordon Hartogensis  
Date: 2023.12.21  
09:53:50 -0500

Subject: Response to Draft FY 2023 Management Letter Report

PBGC management appreciates the opportunity to comment on the Draft FY 2023 Management Letter Report issued as part of the FY 2023 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 2023 Management Letter Report.

Please contact Lisa Carter 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, Chief of Negotiations and Restructuring  
Robert Scherer, Chief Information Officer  
Lisa Carter, Director Corporate Controls and Reviews Department  
Walter Luiza, Director Financial Operations Department