

# INTERNAL AUDIT DEPARTMENT

Internal Audit has assessed the control condition of the key controls related to the Structured Settlement Annuities (SSA) reinsurance transaction with Prisma Life Reinsurance, Ltd (Prisma) as performed by the PGIM Operations& Innovations (O&I) and the Retirement Strategies Controllers teams for the period September 1, 2023, to November 30, 2023. A control condition audit is designed to provide reasonable assurance as to the design and effectiveness of the system of internal control implemented by management.

Internal Audit's testing resulted in the identification of 2 low risk issues. The details of the issues identified, and management's action plans can be reviewed in the following pages.

**Control Condition:** Satisfactory with Limited Exceptions

**Control Environment:** Unrated

## Rating Rationale:

Based on the results of the work performed, Internal Audit has concluded that the system of internal controls implemented by management is adequately designed and operating as intended to mitigate the risks associated with the execution of the transaction. The identified issues have limited impact on the ability of controls to mitigate business risks. These issues include the need to implement secondary/peer review controls in the invested asset data provided to Prisma by PGIM O&I and implement EUCS controls for tools used in the reinsurance settlement process performed by Retirement Strategies Controllers. As a result, Control Condition has been rated Satisfactory with Limited Exceptions.

## Scope:

In September 2023, ABC Company executed a reinsurance transaction with Prisma in which \$10 billion of SSA liabilities were ceded. The scope included an assessment of the design and effectiveness of the key controls related to asset transfer and Accounting Services Agreement processes performed by PGIM O&I and the monthly and quarterly reinsurance settlement processes performed by the Retirement Strategies Controllers teams in support of the post close execution of this reinsurance transaction. The audit focused on certain key risks including:

- Accounting and Financial Reporting – external accounting or reporting
- Accounting and Financial Reporting – internal accounting or reporting

Testing focused on controls in certain key processes including:

- PGIM O&I
  - Public investment accounting, and private placement investment accounting
    - PAM to ledger reconciliations
    - Monthly Custodian to Pam reconciliation
    - Aladdin to Pam reconciliation
    - Asset transfer
    - Investment accounting ledger feed preparation and submission to Prisma as part of the Accounting Services Agreement
  - Investment operations financial close, statutory reporting, and derivatives accounting and reporting

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## INTERNAL AUDIT DEPARTMENT

- Prisma Bermuda Solvency Capital Requirement (BSCR) reporting as part of the Accounting Services Agreement
- Retirement Strategies Controllers
  - Financial close and reporting
    - Monthly and quarterly reinsurance settlement

The following processes were excluded from the scope of the review:

- Review of Journal entries performed by Financial Shared Services is out of scope for this audit.

Any questions regarding this report should be directed to the Group Vice President or Vice President responsible for the audit, John Koskoski and John Graziano, respectively.

# INTERNAL AUDIT DEPARTMENT

Issue #: IS-001402

Issue Name: Two Excel tools used by the Retirement Strategy Controllers team for performing monthly and quarterly reinsurance settlement activities between ABC Company Insurance Company of America (PICA) and Prisma Life Reinsurance, LTD (Prisma Re) were not identified and inventoried as End User Computing Solutions (EUCS).

## Issue Description:

Per the reinsurance agreement between PICA and Prisma Re, the Retirement Strategy Controllers team provides monthly settlement reports to Prisma Re, which include monthly cashflows, funds withheld settlement and coinsurance settlement. Additionally, a quarterly settlement report is provided to determine collateral requirements and cash movement between the Funds Withheld, Coinsurance and Trust accounts. Internal Audit's (IA) review of the Prisma Re settlement process identified that the Excel files used to provide the monthly and quarterly settlement results were not identified and inventoried as EUCS and were not risk assessed to ensure the appropriate EUCS controls were applied. A hard coded number was noted in the file without any description or comments in the file for when this should be updated. Additionally, the Standard Operating Procedure (SOP) did not describe the review process that is performed by the team for these settlements.

## Root Cause Explanation:

The root cause can be attributed to the fact that the monthly and quarterly settlement processes with Prisma Re are new and there was a lack of an understanding that the Excel tools created to perform this process fall under the definition of an EUCS.

## Rating Rationale:

The lack of conformance with enterprise EUCS policies increases the risk that the tools could be vulnerable to the impact of unmonitored changes and errors that may not be detected. These settlement reports, which are required per the reinsurance agreement with Prisma Re, are manually prepared and rely on numerous linked Excel files and source inputs and/or handoffs. Errors or inaccurate information due to missing EUCS controls may lead to financial reporting errors. The risk is partially mitigated by review controls performed by Retirement Strategy Controllers of the settlement results. In addition, IA did not find any data integrity errors in the EUCS calculations. Thus, this issue is rated Low.

Audit Risk Taxonomy Level 1: 8. Information Technology

Issue Rating: Low

Repeat Issue: No

Status: Open

Issue Target Date: 04/30/2024

Operating Division: Corporate Groups

Business Group: FM-Global Finance Community

Reportable Segment: FM-Business Controllers CoE

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Action Plan ID: AC-001378

**Action Plan Description:** The Retirement Strategies Controllers – Reinsurance Team will add the relevant EUCS files to the inventory and perform a thorough review of the team’s EUCS inventory, ensuring relevant controls are applied. We will share the newly created EUCS with the team, ensuring the inventory is complete and all requirements are captured.

Additionally, the SOP will be updated to describe the review process performed by the team and a description of the hard coded number and when it would need to be changed will be added in the file.

**Action Plan Owner:**  
Robert Kutyla

**Action Plan Closure Target Date:**  
03/31/2024

**Action Plan Status:**  
Open

# INTERNAL AUDIT DEPARTMENT

Issue #: IS-001363

Issue Name: Lack of secondary/peer review for the invested asset data provided to Prisma by the PGIM Operations and Innovations (PGIM O&I) team for Prisma Bermuda Solvency Capital Requirement (BSCR) reporting and investment accounting balances for their trial balance and financial statements.

## Issue Description:

Under the terms of a service agreement with Prisma, on a quarterly basis, the Securities Regulatory Reporting unit within the PGIM O&I team is responsible for providing invested asset data to Prisma for BSCR reporting to comply with the Bermuda Monetary Authority (BMA) disclosure requirements. This includes the assets held within the PICA Funds Withheld (FWH) account as well as in the trust account within Prisma. Additionally, PGIM O&I is responsible for sending the investment accounting balances to support Prisma's trial balance and financial statements.

The invested assets information is provided by populating individual schedules in the BMA prescribed BSCR template. The process includes data aggregation for bonds, stocks, derivatives, other invested assets (OIA), and mortgage loans as well as assignment of BSCR ratings to each asset per BMA instructions. Internal Audit's (IA's) review of the process for aggregating and assigning BSCR ratings for bonds, stocks, and OIA identified that the relevant schedules and spreadsheets for assigning BSCR ratings are prepared by one individual from each team and no secondary/peer review is performed to ensure the accuracy and completeness of the information. Additionally, our review identified that a municipal bond was assigned the incorrect BSCR rating. The impact was nominal, 0.21% of the total market value of the portfolio, and resulted in an understatement of the BSCR by \$45k.

On a monthly basis, PGIM investment reporting sends investment accounting balances from Oracle ledger to Prisma and their vendor Marsh via Intralinks for use in their trial balance and financial statements. IA's review of the process identified that a secondary review process for sending this investment accounting data is also not in place; however, it should be noted that no errors were identified by IA in the investment accounting provided to Prisma in our scope period.

## Root Cause Explanation:

The root cause can be attributed to the fact that 3Q23 was the first time the data was provided for the Prisma BSCR template and trial balance, and primary focus was on execution of the processes instead of establishment of formal review processes.

## Rating Rationale:

The lack of secondary review controls may limit the ability to detect errors before submitting information to Prisma under the terms of the accounting service agreement. As a result, Prisma may rely on inaccurate information to support Bermuda regulatory reporting or its own financial reporting. A secondary review would help ensure the accuracy and completeness of the information for compliance with BMA requirements. Any errors or inaccurate information may create reputational risk for ABC Company. The risk is partially mitigated by the fact that the identified error was nominal and resulted in less than a 1% impact on the BSCR. There were no errors identified in the investment accounting balances sent to Prisma for the sampled month reviewed by IA. Additionally, key individuals showed a good understanding of the processes. Thus, this observation is rated Low.

**Audit Risk Taxonomy Level 1:** Accounting and Financial Reporting

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Issue Rating: Low

Repeat Issue: No

Status: Open

Issue Target Date: TBD

Operating Division: PGIM

Business Group: PGIM-Operations and Innovation

Reportable Segment: PGIM-Operations and Innovation

Action Plan ID: AC-001390

Action Plan Description:

Regulatory Reporting (OIA & ML) team:

1. BSCR:
  - a. The Regulatory Reporting (OIA & ML) team will complete BSCR procedures for OIA and mortgage loans.
  - b. The Regulatory Reporting (OIA & ML) team will train a member of the Mortgage Loan and OIA reporting teams on how to prepare the OIA and Mortgage Loan portions of the BSCR.
  - c. The VP of the Regulatory Reporting (OIA & ML) team will review the BSCR.
2. Ledger to Marsh data feed:
  - a. The Regulatory Reporting (OIA & ML) team will create a new Prismic entity in the ledger system where balances related to sub-account 99999 will be housed and remove the need for manual intervention. Procedures will be updated to reflect this new process.

Action Plan Owner:

Maria Bifulco

Action Plan Closure Target Date:

07/31/2024

Action Plan Status:

Open

Action Plan ID: AC-001379

Action Plan Description:

Regulatory Reporting (Securities) team:

The manager of the Regulatory Reporting (Securities) team will complete the BSCR Categorizations and templates and the VP of the Regulatory Reporting (Securities) team will review the securities data and the template submissions.

Action Plan Owner:

Emily Bock-Russo

Action Plan Closure Target Date:

07/31/2024

Action Plan Status:

Open

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