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Sent: Friday, March 22, 2024 3:51 PM
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Cc: Audit Senior Leadership team; Alexandra Hyten; Liz Dietrich; Julia Senchak; Melanie Pelosi; Frank Papasavas; Armand Wandji; Joe Boates; Amy Woltman; Richard Vynalek; Kevin Chaillet; Suzanne Manganiello; Elaine Forsyth; Scott Haggerty; Robert Fishbein; Suzanne Sainato; Hannah Li
Subject: Internal Audit Report: Satisfactory with Limited Exceptions - Risk Based Audit - 2024 - Legacy Group Annuity Segment Block
Attachments: AUD-000066 - Retirement Strategies - Legacy Group Annuity Segment (GAS) Block - 3.22.2024.pdf

Internal Audit Department

Internal Audit has performed an audit of the key controls within the Retirement Strategies Pension Risk Transfer (RS-PRT) In-force Management related to the legacy Group Annuity Segment (GAS) block of business for the period December 1, 2022 to November 30, 2023. An audit is designed to provide reasonable assurance as to the design and effectiveness of the system of internal controls implemented by management.

Internal Audit's testing resulted in the identification of one medium risk issue, the summary of which is presented below. The details of the issue identified and management's action plans can be reviewed in the attached PDF.

Issue Rating	Repeat Issue	Issue Summary	Issue Owner	Due Date	Issue ID
Medium	No	Controls over key end-to-end processes and critical tools utilized to administer the legacy GAS block are insufficient. The root cause is primarily attributed to ownership of key processes transferring multiple times with insufficient resources to execute key controls consistently at the time of the transition.	Pelosi, Melanie	October 30, 2024	IS-001425

Control Condition: Satisfactory with Limited Exceptions

Control Environment: Satisfactory

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 risks of the business. The identified issue has limited impact on the ability of controls to mitigate business risks. While controls related to key calculations and compliance with End User Computing Solution (EUCS) standards require improvement, the financial impact of identified errors is minimal, and mitigating controls are in place to detect meaningful financial errors. Additionally, the recent organizational changes aligned the team with resources which will further improve controls. Also considered in determining the rating is management's self-identified low rated issue related to a manual calculation error. As a result, Control Condition has been rated Satisfactory with Limited Exceptions. In addition, management's practices are in line with expectations, and the processes and structure in place to manage behaviors that impact risk practices are adequately designed. As a result, Control Environment has been rated Satisfactory.

Scope:

GAS products are type of Group Annuity contracts that are purchased by a Plan Sponsor (i.e., client) to fund pension liabilities. The legacy GAS block consists of participating and non-participating contracts that were sold in 1920s through 1980s. Participating contracts allow the plan sponsor to share in mortality, investment, and expense experience. The RS-PRT In-force function is responsible for the administration of GAS client accounts starting in 2023 with the support from the Actuarial team. Previously, the Contracts and Financial Services (CFS) Stable Value team was responsible for the GAS block of business, who moved to Empower with the Full Service Solutions sale in 2022. Additionally, the Actuarial responsibilities also transitioned a few times between 2022 and 2023.

The scope included an assessment of the design and effectiveness of key controls related to the administration of the legacy GAS block. The audit focused on certain key risks including:

- Product, Operations and Trading – Operations
- Product, Operations and Trading – Client Documentation and Reporting
- People and Governance – Governance and Risk Management
- Information Technology – End User Computing Solution Errors
- Insurance – Actuarial Methods
- Insurance – Actuarial Reporting

Testing focused on controls in certain key processes including:

- Annual Expenses Calculations
- Annual Accumulation Calculations
- 6/30 Adjustments Calculations
- Dividends Calculations
- Survivor Benefit Calculation
- Earned Rates, Rollover Rates and Investment Year Rate Calculation
- Compliance with End User Computing Solutions (EUCS) Policy
- Control Environment

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

- Non-Participating Contracts do not share in the investment, expense, and mortality gains/losses, therefore not in scope.
- Asset Maintenance Reserve (AMR) calculation – AMR is an input provided from the Actuarial Valuation team to the Actuarial Strategy team, is part of SOX controls that were tested annually from 2021-2023 by Internal Audit.

Any questions regarding this report should be directed to the Group Vice President or Vice President responsible for the audit, Lily White and Dusyant Patel, respectively.

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