## Executive Summary:

The recent audit of PGIM O&I's financial and accounting processes, including reconciliations, asset transfers, and reporting, aimed to ensure accuracy, completeness, and compliance with SOPs for the period of September 1 to November 30, 2023.

The Audit's Control Condition is rated as "Satisfactory with limited Exceptions," reflecting a generally effective control environment with some areas for improvement. No high or medium rated issues were identified, and the Final Issue rating is "Low."

The audit revealed a nominal error with less than a 1% impact on BSCR and no errors in investment accounting balances for the sampled month. Key personnel have shown a solid understanding of the audited processes, indicating a robust control framework with limited exceptions.

## Audit Overview:

Internal audit has assessed the control conditions of the key control related to Retirement Strategy Controllers team's monthly and quarterly reinsurance settlement activities between Prudential Insurance Company of America (PICA) and Prismic Life Reinsurance,

LTD (Prismic Re).

These processes were carried out by the PGIM Operations and Innovation (PGIM O&I) team.

The scope period for this audit is from 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 controls implemented by management.

Internal Audit's testing resulted in the identification of 2 issues. The issue ratings for these identified issues are Low. The details of the issues identified, and management's action plans can be reviewed in the following pages

## Control Condition:

The Control condition is rated as Satisfactory with limited Exceptions.

## Control environment:

Unrated

## Rating Rationale:

Based on the results of the work performed, Internal Audit has concluded that certain elements of the system of internal controls implemented by management are adequately designed [and/or] operating as intended to mitigate the risks of the business.

The issues identified include two Excel tools used for reinsurance settlement activities not being inventoried as End User Computing Solutions (EUCS), posing a risk of unmonitored changes and errors in reports. There is also a lack of secondary review controls for invested asset data provided to Prismic for regulatory reporting and investment accounting balances. Both issues are rated as low risk, but action plans have been proposed to address these gaps.

## Scope:

Prudential is transitioning into capital light and fee-based revenue streams as part of its strategic goals. In line with this, it established a 3rd party reinsurance company, Prismic, owning a 20% share. Prismic's first transaction was the reinsurance of $10 billion in an existing book of Structured Settlement Annuities (SSA), with plans to reinsure future blocks of business from across Prudential.

The scope included an assessment of the design and effectiveness of the key controls related to the invested asset data provided to Prismic for BSCR reporting and investment accounting balances for trial balance and financial statements, as well as the monthly and quarterly settlement processes with Prismic Re.

The key risks are Accounting and Financial Reporting – external accounting or reporting and 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 Prismic as part of the ASA
* Investment operations financial close, statutory reporting, and derivatives accounting and reporting
* Prismic Bermuda Solvency Capital Requirement (BSCR) reporting as part of the ASA

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 FSS is out of scope for this audit.

**Issue ID:** IS-001402

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

**Description:** Per the reinsurance agreement between PICA and Prismic Re, the Retirement Strategy Controllers team provides monthly settlement reports to Prismic Re, which includes 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 Prismic 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 Description:** The root cause can be attributed to the fact that the monthly and quarterly settlement processes with Prismic 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 Prismic 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.

**Risk Category:** 9. Information Technology

**Issue Rating:** Low

**Repeat Issue:** No

**Status:** Open

**Issue Target Date:** 2024-04-30

**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 - robert.kutyla@prudential.com

**Action Plan Closure Target Date:** 2024-03-31 00:00:00

**Action Plan Status:** Open

**Issue ID:** IS-001363

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

**Description:** Lack of secondary/peer review for the invested asset data provided to Prismic by the PGIM Operations and Innovations (PGIM O&I) team for Prismic Bermuda Solvency Capital Requirement (BSCR) reporting and investment accounting balances for their trial balance and financial statements. Under the terms of a service agreement with Prismic, on a quarterly basis, the Securities Regulatory Reporting unit within the PGIM O&I team is responsible for providing invested asset data to Prismic 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 Prismic. Additionally, PGIM O&I is responsible for sending the investment accounting balances to support Prismic’s trial balance and financial statements. 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 Prismic 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 Prismic in our scope period.

**Root Cause Description:** The root cause can be attributed to the fact that 3Q23 was the first time the data was provided for the Prismic 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 Prismic under the terms of the accounting service agreement. As a result, Prismic 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 Prudential. 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 Prismic for the sampled month reviewed by IA. Additionally, key individuals showed a good understanding of the processes. Thus, this observation is rated Low.

**Risk Category:** Accounting and Financial Reporting

**Issue Rating:** Low

**Repeat Issue:** No

**Status:** Open

**Issue Target Date:** 2024-08-30

**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 - emily.bock@prudential.com

**Action Plan Closure Target Date:** 2024-07-30 00:00:00

**Action Plan Status:** Open

**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 - maria.bifulco@prudential.com

**Action Plan Closure Target Date:** 2024-07-31 00:00:00

**Action Plan Status:** Open