



Employee Benefits Security Administration

Performance Audit of the Thrift Savings Plan Account Maintenance Process

January 9, 2018

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EXECUTIVE SUMMARY

Members of the Federal Retirement Thrift Investment Board
Washington, D.C.

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As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of the Thrift Savings Plan (TSP) account maintenance process. Our fieldwork was performed from February 7 through September 26, 2017, at the Federal Retirement Thrift Investment Board Staff's (Agency) headquarters in Washington, DC. Our scope period for testing was February 1, 2016 through February 28, 2017.

We conducted this performance audit in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the American Institute of Certified Public Accountants' *Standards for Consulting Services*. *Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate audit evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives. Criteria used for this audit are defined in the EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes United States Code (USC) Title 5, Chapter 84 and the Code of Federal Regulations (CFR) Title 5, Chapter VI.

The objectives of our audit over the TSP account maintenance process were to:

- Determine whether the Agency implemented certain procedures to (1) accurately reflect in participant accounts contributions, daily valuation, and the appropriate fund balances as elected

by participants; (2) process TSP contributions, breakage¹, adjustments, interfund transfers, forfeitures, and forfeitures restorations promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (3) monitor manual adjustments made to transactions and participant accounts by the Special Processing Unit; (4) accurately record account maintenance activity in the TSP accounting records; and (5) segregate and prevent contributions and transfers to beneficiary participant accounts.

- Test compliance of the TSP account maintenance process with 5 USC 8432(d), 8432(f), 8432(g)(1), 8432(g)(2), 8432(g)(4), 8438(c), 8439(a)(1), 8439(d)(1)(2), 8474(b)(5), and 8474(c)(8) (hereinafter referred to as FERSA), and 5 CFR 1600.18, 1600.20, 1600.23(a), 1600.23(c), 1600.23(d), 1600.31, 1600.32, 1601.12, 1601.13(a)(5), 1601.22, 1601.32(b), 1601.33, 1603.2(c), 1603.2(d), 1605.2, 1605.12, 1605.21(b), 1645.2, 1645.5(a), 1645.5(b), 1650.16, 1651.19(b), and 1651.19(n) (hereinafter referred to as Agency Regulations).
- Determine the status of the prior EBSA TSP open recommendation reported in *Performance Audit of the Thrift Savings Plan Account Maintenance Process*, dated September 22, 2016.

We present one new finding and recommendation addressing other controls over the TSP account maintenance process. Fundamental control recommendations address significant procedures or processes that have been designed and operate to reduce the risk that material intentional or unintentional processing errors could occur without timely detection or that assets are inadequately safeguarded against loss. Other control recommendations address procedures or processes that are less significant than fundamental controls. The recommendation is intended to strengthen the TSP account maintenance process. The Agency should review and consider this recommendation for timely implementation. Section III.C presents the details that support the current year finding and recommendation.

We experienced certain limitations during the conduct of our audit. Consequently, we were unable to complete our procedures over compliance with the following regulations. 5 CFR 1601.12 requires future deposits in the TSP to “be allocated among the TSP Funds based on the most recent contribution allocation on file for the participant.” During our performance audit, we did not obtain a sufficient number of positive confirmation responses from participants to determine whether the selected contributions were properly distributed to the appropriate fund(s) per the participant’s request. In addition, 5 CFR 1605.2 requires breakage to be calculated and charged on late

¹ Breakage is the loss incurred or the gain realized on makeup or late contributions.

contributions. Because the Agency did not provide supporting documentation for 14 of 58 sampled breakage transactions during our performance audit, we could not determine if those 14 breakage amounts were calculated correctly.

During our performance audit, the Agency did not provide supporting documentation for five payroll agency journal voucher submissions used in our testing of journal voucher processing because of the sensitive nature of those specific journal vouchers. As a result, we selected five replacement journal vouchers and were able to complete our testing in this area with this restriction noted.

Based upon the performance audit procedures conducted and the results obtained, except for the matters described in the paragraphs above, we have met our audit objectives. We conclude that for the period February 1, 2016 through February 28, 2017, the Agency implemented certain procedures to (1) accurately reflect in participant accounts contributions, daily valuation, and the appropriate fund balances as elected by participants; (2) process TSP contributions, breakage, adjustments, interfund transfers, forfeitures, and forfeiture restorations promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (3) monitor manual adjustments made to transactions and participant accounts by the Special Processing Unit; (4) accurately record account maintenance activity in the TSP accounting records; and (5) segregate and prevent contributions and transfers to benefit participant accounts. As a result of compliance testing, we did not identify any instances of noncompliance with FERSA or 5 CFR 1600.18, 1600.20, 1600.23(a), 1600.23(c), 1600.23(d), 1600.31, 1600.32, 1601.13(a)(5), 1601.22, 1601.32(b), 1601.33, 1603.2(c), 1603.2(d), 1605.12, 1605.21(b), 1645.2, 1645.5(a), 1645.5(b), 1650.16, 1651.19(b), or 1651.19(n). However, we noted an internal control weakness related to breakage documentation in the TSP account maintenance process.

We also reviewed one prior EBSA recommendation related to the TSP account maintenance process to determine its current status. Section III.B documents the status of the prior recommendation. In summary, the recommendation has been implemented and closed.

The Agency's response to our new recommendation, including the Executive Director's formal reply, is included as an appendix within the report (Appendix A). The Agency did not concur with the new recommendation and noted that the supporting documentation was not provided because of other competing priorities. However, because we were unable to obtain the supporting documentation necessary to recalculate these breakage transactions, we did not revise the recommendation.

This performance audit did not constitute an audit of the TSP's financial statements in accordance with *Government Auditing Standards*. KPMG was not engaged to, and did not render an opinion on the Agency's internal controls over financial reporting or over financial management systems. KPMG cautions that projecting the results of this audit to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

While we understand that this report may be used to make the results of our performance audit available to the public in accordance with *Government Auditing Standards*, this report is intended for the information and use of the U.S. Department of Labor Employee Benefits Security Administration, Members of the Federal Retirement Thrift Investment Board, and Agency management. The report is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

January 9, 2018

I. BACKGROUND OF THE ACCOUNT MAINTENANCE PROCESS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement Systems Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is a basic component of the Federal Employees' Retirement System (FERS) and provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions on April 1, 1987, and as of February 28, 2017, had approximately \$490 billion in assets and approximately 5 million participants².

The FERSA also established the Federal Retirement Thrift Investment Board (Board) and the position of Executive Director. The Executive Director manages the TSP for its participants and beneficiaries. The Board's Staff (Agency) is responsible for administering TSP operations.

B. TSP Account Maintenance Process³

Account maintenance is the TSP process designed to process and record Federal agency and participant contributions, interfund transfers, daily valuation, adjustments, breakage, forfeitures and forfeiture restorations, and to maintain the current investment balance in each fund by participant. Account maintenance also includes maintaining a record of employee data (e.g., name, social security number, date of birth, address, and separation code).

1. Processing Contributions and Maintaining Employee Data

While uniformed services members must make a TSP contribution election through their service to establish a TSP account, employer agencies automatically enroll Federal employees in the TSP. In order to change the default contribution percentage and investment fund, a participant must

² Source: Minutes of the March 27, 2017 Federal Retirement Thrift Investment Board Meeting, posted on www.frtib.gov

³ Sources: *Summary of the Thrift Savings Plan*, March 2017; *Your TSP Account: A Guide for Beneficiary Participants*, February 2017; *Thrift Savings Plan Special Processing Unit Procedures*, December 30, 2016; *Contributions Procedures*, June 30, 2016; *Participant Investment Services Procedures*, June 30, 2016; and *Plan Ledger and Reconciliation Procedures*, April 30, 2016.

submit a Form TSP-1⁴, *Election Form*, to his/her employer agency or service, or initiate contributions electronically via the payroll providers' website, such as myPay, PostalEASE, or EmployeeExpress. The form can be obtained from the agency, service, or TSP website, or requested through the ThriftLine. Participants may choose between a traditional (pre-tax) TSP account or a Roth (after-tax) account. Participants specify the amount of contribution election as a percentage of their basic pay, or a fixed amount, for each payroll period.

Payroll offices submit contribution, employee, and adjustment data to the TSP each payroll period using one of the following methods:

- Electronic submission through a web-based application; or
- File Transfer Protocol (FTP).

Most Federal agencies and uniformed services transfer amounts for submission to a clearing account at the U.S. Department of the Treasury (Treasury). These amounts include contributions (net of adjustments) owed by the agencies and services to TSP participants. These amounts are then transferred to the TSP. Breakage and lost earnings are calculated by the TSP system and reported back to the Federal agency or uniformed service based on the amount taken out of the agency's or service's clearing account.

The technical services contractor (TSC) receives and processes data submitted by the Federal agencies and uniformed services through the Agency Payroll Interface (API) system. To ensure data completeness, agencies and services are also required to electronically submit summary data separately on Form TSP-2, *Certification of Transfer of Funds and Journal Voucher*, (JV) to reconcile with the payroll submission detailed data. The JV summarizes total payment and negative adjustment amounts for employee and government contributions by participant and provides the certification that funds are available. The number of employee data records, negative adjustment records, and payment records must agree with the record count totals on the JV. The TSC has to manually enter JVs into API if they are not received electronically. The TSC scans all TSP forms, including JVs, into the EXP AG system, and hard copy JVs are purged after 90 days. The JVs also provide the authorization for the Agency to draw down the money from the agency's or service's TSP clearing account.

⁴ Forms used by the uniformed service members are numbered the same as for civilians except they are denoted by a "U". For example, the Form TSP-1 for the uniformed services is Form TSP-U-1.

The data submitted electronically is placed in a “listener” file that waits for a matching JV to be entered by the TSC before beginning the API edit process. The payroll office number and JV number are used to match to the submission data.

During the API edit process, various edits are performed on the incoming data based on pre-established business rules. The API edit process may fully process the data, completely or partially reject data, or process the records with warnings. Rejected data is stored in an error database for the Reports Notice process, which generates an error report. This report contains information related to the cause of error from which the TSC staff can determine appropriate action (e.g., return to agency/service).

For agencies and services that use the SF-224, *Statement of Transactions*, process, if a rejected record affects the total contribution amount, the TSP will only transfer the accepted total from the agency’s Treasury account into the TSP account. For a non-SF-224 agency, the agency submits contribution funds to the TSP via electronic funds transfer (EFTs) or checks, in which case surplus funds will be retained by the TSP until the funds are applied to future submissions.

Contribution activity is posted directly to the TSP general ledger (i.e., Savantage) at the payroll office level. Payroll offices transmit details of contributions, loan payments, and adjustments into OMNI, the TSP recordkeeping system, via API. An extract file, which contains journal voucher transactions, is created from OMNI and sent directly to Savantage. The Office of the Chief Financial Officer reconciles all contribution transactions from the recordkeeping system to Savantage daily by completing Fund and Contribution Reconciliations.

If contributions on a payroll submission are posted more than 30 business days after the “current pay date” reported on the header record, the submission is considered late. Generally, in the case of late submissions, the TSP system will calculate breakage¹ on current contributions and makeup employee contributions submitted on current payment records. The calculation will be based on the share prices for the investment funds in which the participants would have invested on the reported pay date.

2. Daily Valuation

Each investment fund is valued at the end of each business day, and share prices are calculated for the purpose of processing participant/account transactions. Share prices are calculated in the Asset

Manager Interface (AMI), which receives inputs for shares outstanding, market earnings, Government Securities Investment Fund (G Fund) interest, and accrued expenses.

Shares outstanding are retrieved by AMI from the TSP system. Market earnings for the Fixed Income Investment Fund (F Fund), Common Stock Index Investment Fund (C Fund), Small Capitalization Stock Index Investment Fund (S Fund), and International Stock Index Investment Fund (I Fund) only are retrieved from the TSP Investment Manager, currently Blackrock Institutional Trust Company (BTC), and are equal to the change in the settled market value of the investments from prior business day minus the proceeds of the prior day's trade. G Fund interest is calculated based on invested balances and the G Fund interest rate, which is determined on the first business day of the month, each month, by Treasury. Daily accrued expenses, net of forfeitures, are calculated by the Agency's Accounting Division on the first business day of each month.

3. Breakage

Breakage represents the gain realized or loss incurred on makeup or late contributions. It is the difference between the value of the share of the applicable investment fund(s), which would have been purchased on the "as of" date, and the value of those shares on the date the contributions are posted to a participant's account. The "as of" date is the previous pay date for which the TSP contributions should have been made and is used by payroll offices on payment records in order to report makeup and late contributions. Participants are entitled to breakage on makeup or late agency contributions, late employee contributions, makeup employee contributions attributable to Federal Erroneous Retirement Coverage Corrections Act (FERCCA) corrections, and makeup employee contributions resulting from a back pay or other retroactive pay adjustment. The TSP system uses the record type and "as of" date on the record to determine entitlement to breakage. To calculate the breakage, the TSP system determines, for each source of contributions, the number of shares of the applicable investment fund(s) that would have been purchased had the contributions been reported on time. The TSP system then determines the value of the number of shares of each investment fund on the posting date and subtracts from it the amount of the contributions. The result is the breakage due to the participant.

4. Processing Negative Adjustments

Payroll offices must submit a negative adjustment record to remove erroneous contributions that they had previously reported. Payroll offices may remove all or any part of a contribution

previously submitted with an attribute pay date on or after January 1, 2000. Negative adjustment records are submitted with contributions data and are edited by the TSP system upon receipt. Records that pass the TSP system edits are processed immediately. Processing the negative adjustment records includes a calculation of all investment gains and losses related to the erroneous contributions for each source (e.g., employee, automatic, and matching) and investment fund.

5. Processing Transfers and Rollovers into the TSP

Participants can transfer or rollover money from a qualified retirement plan or a traditional Individual Retirement Account (IRA)⁵ into the TSP. A transfer occurs when the qualified retirement plan or traditional IRA sends the eligible distribution directly to the TSP, and a rollover occurs when the qualified retirement plan makes a distribution to the participant and he or she deposits the distribution into the TSP. All checks sent to the TSP must be accompanied by Form TSP-60, *Request for a Transfer into the TSP*⁶, so that the transfer or rollover can be processed. Both the participant and the administrator of the qualified retirement plan or the trustee or custodian of the traditional IRA from which the eligible transfer or rollover distribution was made must complete this form. The form and the check are subject to a number of edits to verify all conditions are met in order for the TSP to process the transfer or rollover. Once all edits are passed, the check is prepared by an analyst at the Special Processing Unit (SPU) for deposit.

6. Forfeitures

The amounts in participants' TSP accounts related to participants' employee and agency matching contributions are related earnings and are always vested. However, to become vested and entitled to keep the agency automatic contribution, participants must complete three years of Federal civilian service (or two years for certain political or Congressional appointments). TSP participants who leave Federal service before satisfying their vesting requirements for the agency automatic contribution will forfeit the agency automatic contribution and related earnings. However, if a participant dies in service before satisfying the vesting requirements, the agency automatic contribution and related earnings become automatically vested.

The employment code and separation date are transmitted by the responsible payroll office via the Employee Data Record (EDR). To process forfeitures, the TSP system identifies participants with

⁵ The TSP accepts transfers of Roth money from a Roth 401(k), 403(b) or 457(b) into the Roth balance of a participant's TSP account; however, the TSP does not accept rollovers from Roth IRAs.

⁶ Transfers of Roth money require Form TSP-60-R, *Request for a Roth Transfer into the TSP*.

a valid employment code (“S” indicating a separation), a separation date of at least 30 days prior to the process date, and no new contribution or loan activity in their accounts. The TSP system compares the time lapse between each separating participant’s service computation date (SCD) and separation date, and then compares the result to the required vesting period (two or three years, depending on the vesting code). If the period of service is less than required for vesting, the agency automatic contribution and related earnings are forfeited and removed from the separated participant’s account. Forfeitures will not process if the participant has an outstanding loan or withdrawal request on the account.

The TSP system also identifies participants coded as Civil Service Retirement System (CSRS) that have received agency contributions. The TSP forfeits these erroneous contributions and related earnings if the agency contributions have been in the CSRS participant’s account for more than one year. Contribution and related earnings amounts that have erroneously been in the CSRS participant’s account for less than one year may be claimed and returned to the Federal agency payroll offices by submitting negative adjustment records. In these cases, all earnings are forfeited to the TSP, and the value of the original erroneous contribution is returned to the payroll office.

7. Forfeiture Restorations

If contributions are forfeited erroneously as a result of incorrect participant information submitted by a participant’s Federal agency payroll office or from administrative errors, they are restored. Incorrect participant information may include the TSP SCD, the separation code or date, and the vesting or retirement coverage code. Administrative errors could include data processing program errors and data entry errors. The Federal agency payroll or personnel office must submit a corrected data record and Form TSP-5-R, *Request to Restore Forfeiture*, to request and authorize that amounts erroneously forfeited be restored.

Once the corrected data record and the form have been received, an analyst at the SPU enters the information into the Participant Support Representative (PSR) notes to indicate that the information has been received. An analyst then researches the participant’s account to verify that the forfeiture occurred. If the restoration is determined to be valid, the analyst determines the amount of the forfeiture that was applied to each investment fund. The analyst then enters the reversal by posting an adjustment to Miscellaneous Receipts Disbursements (adjustment T301) in the TSP system for each investment fund affected. The restoration is processed the day after the T301s are posted. The TSP system restores a participant’s forfeited agency automatic contribution and forfeited earnings on agency automatic contributions, and records gains and losses that were

not previously recognized because the erroneous forfeiture occurred.

8. Interfund Transfers

An interfund transfer is the redistribution/reallocation of some or all of a participant's existing account balance among the G, F, C, S, I, and the five Lifecycle (L) Funds. Participants have the ability to redistribute/reallocate all or part of the balances in their accounts from one fund to any other fund(s). Participants may reallocate their account balances among the ten TSP funds in any combination of whole percentages that adds to 100%. An interfund transfer does not change the way contributions are allocated to the various TSP investment funds.

Participants may make interfund transfers primarily through the TSP website, ThriftLine, or PSR. Participants who have not previously acknowledged the risk of investing in the F, C, S, I, and L Funds must make an acknowledgement of the risk of investing in these funds prior to completing the interfund transfer. When interfund transfer requests are entered into the TSP system, they are automatically checked to verify that the requested allocations total 100% prior to processing. Confirmation notices are generated and either mailed or e-mailed to the participant after processing of the transfer is complete.

Requests from participants for interfund transfers are processed on a daily basis. The account changes related to the interfund transfers are processed during the nightly unified processing cycle. Requests entered by 12:00 p.m., Eastern Time, each business day will typically be posted using the TSP fund share prices for that day. Requests made after 12:00 p.m. will be posted by the close of business on the next business day.

Participants can currently make two interfund transfers each month to redistribute money in their TSP accounts among any or all of the TSP investment funds. After that, participants can only request interfund transfers to move money into the G Fund, which will increase the percentage of their accounts held in the G Fund by reducing the percentage held in one or more of the other TSP funds, for the remainder of the calendar month.

9. Manual Adjustments

The Agency contracts with a vendor to provide operational support for several processes, including account maintenance; the vendor's subcontractor is responsible for performing various account maintenance activities at the SPU, including rollovers and transfers, forfeitures and restorations,

non-sufficient funds check processing, manual notices, Treasury credits, and other adjustments.

Other adjustments performed by the SPU primarily consist of participant requests to change account details (e.g., name and address changes) or cancel recent online transaction requests (e.g., interfund transfer). The SPU also performs adjustments related to death benefits processing, including consolidation of funds into the G Fund, upon notification of a participant’s death; return of funds to participant accounts following disclaimer of death benefits by beneficiaries; and transfers of funds into beneficiary accounts.

C. TSP Account Maintenance Statistics

Account Balances

Exhibit II-1 presents the total and Roth average account balances maintained by the TSP for February 2017 for FERS, CSRS, and uniformed services participants.²

Exhibit II-1

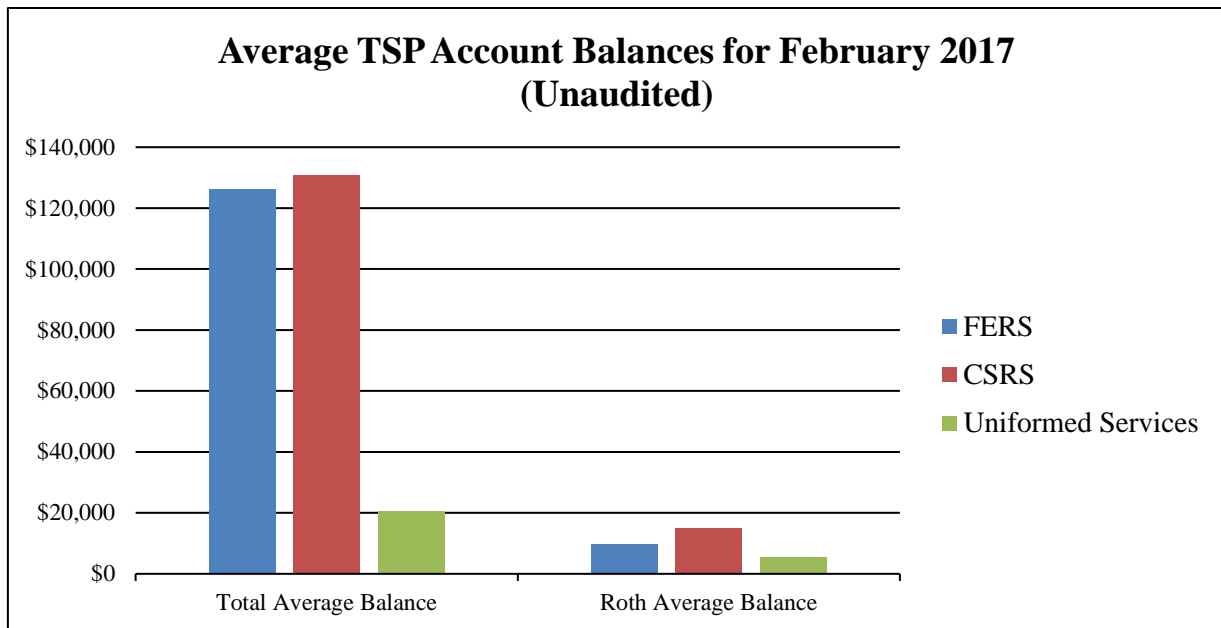
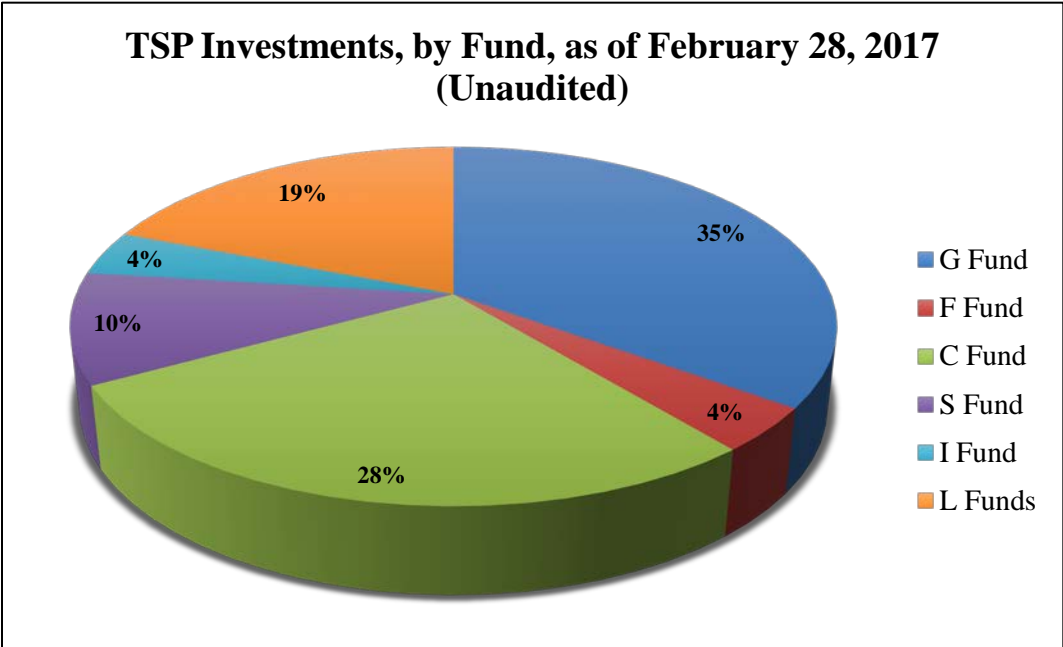


Exhibit II-2 presents the allocation of TSP investments, by investment fund, as of February 28, 2017.²

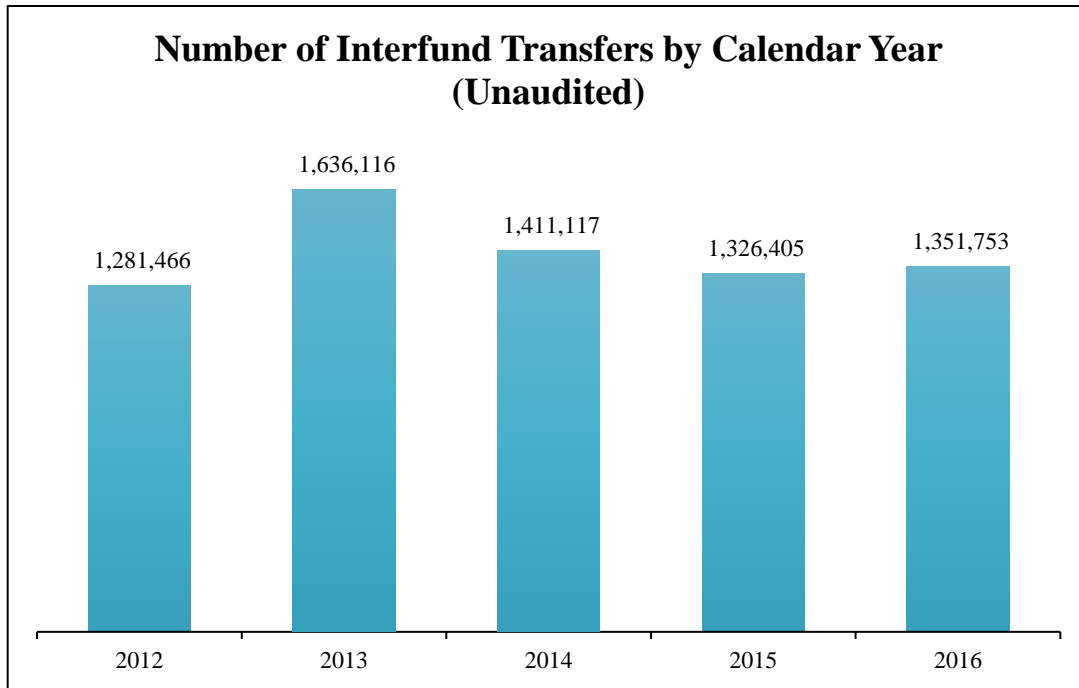
Exhibit II-2



Interfund Transfers

Exhibit II-3 presents the number of interfund transfers processed, by calendar year, over the past five calendar years.⁷

Exhibit II-3



⁷ Source: TSP *Total Transactions* for the period January 1, 2012 through December 31, 2016.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

A. Objectives

The U.S. Department of Labor Employee Benefits Security Administration (EBSA) engaged KPMG LLP (KPMG) to conduct a performance audit of the Thrift Savings Plan (TSP) account maintenance process.

The objectives of our audit over the TSP account maintenance process were to:

- Determine whether the Federal Retirement Thrift Investment Board's Staff (Agency) implemented certain procedures to (1) accurately reflect in participant accounts contributions, daily valuation, and the appropriate fund balances as elected by participants; (2) process TSP contributions, breakage¹, adjustments, interfund transfers, forfeitures, and forfeitures restorations promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (3) monitor manual adjustments made to transactions and participant accounts by the Special Processing Unit; (4) accurately record account maintenance activity in the TSP accounting records; and (5) segregate and prevent contributions and transfers to beneficiary participant accounts.
- Test compliance of the TSP account maintenance process with United States Code (USC) Title 5 Sections 8432(d), 8432(f), 8432(g)(1), 8432(g)(2), 8432(g)(4), 8438(c), 8439(a)(1), 8439(d)(1)(2), 8474(b)(5), and 8474(c)(8), and Code of Federal Regulations (CFR) Title 5, Parts 1600.18, 1600.20, 1600.23(a), 1600.23(c), 1600.23(d), 1600.31, 1600.32, 1601.12, 1601.13(a)(5), 1601.22, 1601.32(b), 1601.33, 1603.2(c), 1603.2(d), 1605.2, 1605.12, 1605.21(b), 1645.2, 1645.5(a), 1645.5(b), 1650.16, 1651.19(b), and 1651.19(n).
- Determine the status of the prior EBSA TSP open recommendation reported in *Performance Audit of the Thrift Savings Plan Account Maintenance Process*, dated September 22, 2016.

B. Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the American Institute of Certified Public Accountants' *Standards for Consulting Services*, using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was February 1, 2016 through February 28,

2017. We performed the audit in four phases: (1) planning, (2) arranging for the engagement with the Agency, (3) testing and interviewing, and (4) report writing.

The planning phase was designed to assist team members to develop a collective understanding of the activities and controls associated with the applications, processes, and personnel involved with TSP account maintenance operations. Arranging the engagement included contacting the Agency and agreeing on the timing of detailed testing procedures.

During the testing and interviewing phase, we conducted interviews, collected and inspected auditee-provided documentation and evidence, participated in process walk-throughs, and designed and performed tests of controls and compliance⁸. We conducted these test procedures at the Agency's headquarters in Washington, D.C. In Appendix B, we identify the key documentation provided by Agency and contractor personnel that we reviewed during our performance audit.

Our performance audit procedures included selecting non-statistical samples from populations of account maintenance transactions and TSP participants. Procedures performed included testing the following:

- Federal agency and uniformed service payroll submissions to the TSP, to determine if any significant delays occurred between receipt dates and posting dates to the TSP system;
- Breakage, negative adjustment, rollover, interfund transfer, and forfeiture transactions, to determine if they were accurately reflected in the participant accounts;
- Participants with a TSP balance at any time during the period under audit, to determine if daily valuation and allocation to the appropriate fund balances as elected by participants were accurate and the accounts were properly classified (i.e., tax-deferred, tax-exempt, or Roth);
- Participants with beneficiary accounts, to determine if any contributions or transfers were recorded in their accounts;
- Participants with catch-up contributions, to determine compliance with applicable regulations;
- Contribution, interfund transfer, and forfeiture accounting activity, to determine if the activity was properly recorded and accumulated in the underlying accounting records;

⁸ We tested certain information technology edit checks and system calculations related to the account maintenance process subsequent to the scope period and in a test environment. The Agency represented that such edits checks and system calculations were functionally and technically the same as those designed and operating in the production environment from February 1, 2016 through February 28, 2017. In addition, we tested the requirements underlying the edit checks and system calculations in our 2017 compliance procedures.

- Forfeiture restorations, to determine if erroneous forfeitures were promptly investigated and restored to participant accounts; and
- Manual adjustments made by the Special Processing Unit, to determine if they were properly supported and posted to the participant accounts.

Because we used non-statistically-determined sample sizes in our sampling procedures, our results are applicable to the sample items we tested and were not extrapolated to the population.

Criteria used for this engagement are defined in EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes USC Title 5, Chapter 84, and CFR Title 5, Chapter VI.

The report writing phase entailed drafting a preliminary report, conducting an exit conference, providing a formal draft report to the Agency for comment, and preparing and issuing the final report.

III. FINDINGS AND RECOMMENDATIONS

A. Introduction

We performed procedures related to the Thrift Savings Plan (TSP) account maintenance process while conducting a performance audit at the Federal Retirement Thrift Investment Board's (the Board) Staff (Agency) headquarters. Our scope period for testing was February 1, 2016 through February 28, 2017. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel, reviewing key reports and documentation (Appendix B), and observing selected procedures.

We experienced certain limitations during the conduct of our audit. Consequently, we were unable to complete our procedures over compliance with the following regulations. Code of Federal Regulations (CFR), Title 5, Part 1601.12 requires future deposits in the TSP to "be allocated among the TSP Funds based on the most recent contribution allocation on file for the participant." During our performance audit, we did not obtain a sufficient number of positive confirmation responses from participants to determine whether the selected contributions were properly distributed to the appropriate fund(s) per the participant's request. In addition, 5 CFR 1605.2 requires breakage¹ to be calculated and charged on late contributions. Because the Agency did not provide supporting documentation for 14 of 58 sampled breakage transactions during our performance audit, we could not determine if those 14 breakage amounts were calculated correctly.

During our performance audit, the Agency did not provide supporting documentation for five payroll agency journal voucher submissions used in our testing of journal voucher processing because of the sensitive nature of those specific journal vouchers. As a result, we selected five replacement journal vouchers and were able to complete our testing in this area with this restriction noted.

Based upon the performance audit procedures conducted and the results obtained, except for the matters described in the paragraphs above, we have met our audit objectives. We conclude that for the period February 1, 2016 through February 28, 2017, the Agency implemented certain procedures to (1) accurately reflect in participant accounts contributions, daily valuation, and the appropriate fund balances as elected by participants; (2) process TSP contributions, breakage, adjustments, interfund transfers, forfeitures, and forfeiture restorations promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (3) monitor manual

adjustments made to transactions and participant accounts by the Special Processing Unit; (4) accurately record account maintenance activity in the TSP accounting records; and (5) segregate and prevent contributions and transfers to benefit participant accounts. As a result of compliance testing, we did not identify any instances of noncompliance with 5 USC 8432(d), 8432(f), 8432(g)(1), 8432(g)(2), 8432(g)(4), 8438(c), 8439(a)(1), 8439(d)(1)(2), 8474(b)(5), or 8474(c)(8) or 5 CFR 1600.18, 1600.20, 1600.23(a), 1600.23(c), 1600.23(d), 1600.31, 1600.32, 1601.13(a)(5), 1601.22, 1601.32(b), 1601.33, 1603.2(c), 1603.2(d), 1605.12, 1605.21(b), 1645.2, 1645.5(a), 1645.5(b), 1650.16, 1651.19(b), or 1651.19(n). However, we noted an internal control weakness related to breakage documentation in the TSP account maintenance process.

We present one new finding and recommendation, presented in Section III.C, addressing other controls over the TSP account maintenance process. Fundamental control recommendations address significant procedures or processes that have been designed and operate to reduce the risk that material intentional or unintentional processing errors could occur without timely detection or that assets are inadequately safeguarded against loss. Other control recommendations address procedures or processes that are less significant than fundamental controls. The recommendation is intended to strengthen the TSP account maintenance process. The Agency should review and consider this recommendation for timely implementation. The Agency's response to the recommendation is included as an appendix within this report (Appendix A).

We also reviewed one prior U.S. Department of Labor Employee Benefits Security Administration (EBSA) recommendation related to the TSP account maintenance process to determine its current status. Section III.B documents the status of the prior recommendation. In summary, the recommendation has been implemented and closed.

Section III.C presents the new finding and recommendation from this performance audit. Section III.D summarizes the open recommendation.

B. Finding and Recommendation from Prior Report

The finding and recommendation from prior reports that required follow-up are presented in this section. The discussion below includes the current status of the recommendation.

2015 Account Maintenance Process Recommendation No. 1:

Title: Lack of Certain Formal Procedures and System Documentation

Original Recommendation: The Agency should develop, document, and implement procedures related to forfeitures, including procedures for the maintenance of related system documentation.

Reason for Recommendation: During our 2015 performance audit, we noted that formal procedures related to forfeitures were not documented, and related system documentation was not readily available for our review.

Status: **Implemented.**
The Agency documented its procedures on forfeitures by updating its existing procedures, *Contribution Procedures*, *Withdrawal Procedures*, and *Special Processing Unit Desk Procedures*, effective December 31, 2016, to incorporate the forfeiture process. These procedures support the system configurations related to forfeitures. In addition, our testwork results for the current scope period did not identify any exceptions related to forfeitures.

Disposition: **Recommendation Closed.**

C. 2017 Finding and Recommendation

While conducting our performance audit over the TSP account maintenance process, we identified one new finding and developed a related recommendation. EBSA requests appropriate and timely action for the recommendation.

RECOMMENDATION TO ADDRESS OTHER CONTROLS

2017-1: Documentation Supporting Breakage Calculations

During our audit procedures, we noted that the Agency’s record management of breakage reports could be improved. Specifically, we randomly selected 58 breakage transactions posted during our scope period to determine if the breakage was properly calculated and charged on late

contributions. For 14 of the 58 transactions, the Agency did not provide the applicable TSP 5016 – *Detailed Breakage by Participant* reports so that we could test the calculations; these transactions ranged from (\$23.36) to \$15.28, with nine amounts in the \$0 to \$1 range. According to Agency personnel, the reports were time-consuming to retrieve and they considered many of the 14 transactions to be de minimis.

The Government Accountability Office’s *Standards for Internal Control in the Federal Government*, paragraph 10.03 states, “Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. [...] Documentation and records are properly managed and maintained.”

1. The Agency should improve its records management procedures related to breakage reports so that this documentation is readily available for examination.

Because the Agency did not provide the supporting reports, we could not conclude on the Agency’s compliance with 5 CFR 1605.2. In addition, difficult to retrieve reports may cause delays in responding to participant inquiries about breakage calculations.

D. Summary of Open Recommendation

2017 RECOMMENDATION

RECOMMENDATION TO ADDRESS OTHER CONTROLS

Documentation Supporting Breakage Calculations

1. The Agency should improve its records management procedures related to breakage reports so that this documentation is readily available for examination.

AGENCY'S RESPONSE

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77K Street, NE Washington, DC 20002



January 9, 2018

Mr. Michael Auerbach
Acting Chief Accountant
Employee Benefits Security Administration
United States Department of Labor
Suite 400
122 C Street, N.W.
Washington, D.C. 20001-2109

Dear Michael:

This is in response to KPMG's email of November 29, 2017, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Account Maintenance Process dated December 2017. My comments with respect to this report are enclosed.

Thank you once again for the constructive approach that the Department of Labor and its contractors are taking in conducting the various audits of the TSP. The information and recommendations that are developed as a result of your reviews are useful to the continued improvement of the Thrift Savings Plan.

Very truly yours,



Ravindra Deo

AGENCY'S RESPONSE, CONTINUED

Executive Director's Staff Formal Comments on the
Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan
Account Maintenance

2017 Recommendations to Address Other Controls

2017-1 TSP Documentation Supporting Breakage Calculations

The Agency should improve its records management procedures related to breakage reports so that this documentation is readily available for examination.

Agency Response:

We do not concur with the recommendation. The Agency has access to records and sufficient records management procedures for breakage calculation reports. In this case, the auditors made additional data requests near the end of fieldwork. The Agency determined it was not feasible to provide the additional data within the requested timeframes due to other competing priorities. In the future, the Agency will work with the auditor to provide additional documentation upon request.

KEY DOCUMENTATION AND REPORTS REVIEWED

Federal Retirement Thrift Investment Board's (Board) Staff (Agency) Documents and Reports

- Thrift Savings Plan – *Summary of the Thrift Savings Plan*, dated March 2017
- Thrift Savings Plan – *Special Processing Unit Procedures*, December 30, 2016
- Thrift Savings Plan – *Special Processing Unit Desk Procedures*, December 30, 2016
- Thrift Savings Plan – *Death Benefits Processing Unit Procedures*, January 31, 2017
- Thrift Savings Plan – *Legal Processing Unit Procedures*, December 13, 2016
- Thrift Savings Plan – *Money-In Money-Out Department Procedures*, August 25, 2016
- Thrift Savings Plan – *Contributions Procedures*, June 30, 2016
- Thrift Savings Plan – *Participant Investment Services Procedures*, June 30, 2016
- Thrift Savings Plan – *Plan Ledger and Reconciliation Procedures*, April 30, 2016
- Thrift Savings Plan Bulletin 95-18, *Forfeiture Restoration Procedures and Introduction of Form TSP-5 Request to Restore Forfeiture*, dated May 18, 1995
- Thrift Savings Plan Bulletin 15-1, *Thrift Savings Plan Vesting Requirements and TSP Service Computation Date*, dated July 9, 2015
- *Your TSP Account: A Guide for Beneficiary Participants*, dated February 2017
- *Internal Audit of the Manual Thrift Savings Plan Transaction Process*, July 30, 2015
- *Internal Audit of the Daily Investment Process*, June 1, 2016
- TSP-3, *Designation of Beneficiary*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP-2, *Certificate for Transfer of Funds and Journal Voucher*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP-5-R, *Request to Restore Forfeitures*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP-17, *Information Relating to Deceased Participant*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP-60, *Request for a Transfer into the TSP*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP-65, *Request to Combine Civilian and Uniform Services TSP Accounts*, for various dates in the period of February 1, 2016 through February 28, 2017
- Abandonment notices for various dates in the period of February 1, 2016 through February 28, 2017

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

- Asset Manager Interface (AMI) Share Price Investment Detail for various dates in the period of February 1, 2016 through February 28, 2017
- AMI Market Value Detail for various dates in the period of February 1, 2016 through February 28, 2017
- BlackRock Asset and Transaction Statements for various dates in the period of February 1, 2016 through February 28, 2017
- Government Securities Investment Fund Cash Flow Statements for various dates in the period of February 1, 2016 through February 28, 2017
- TSP General Ledger extracts for the 13 months ended February 28, 2017
- TSP-3010, *Collection of Forfeitures Report*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP-3011, *Collection of Forfeitures Reconciliation Report*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP-3301, *Investment Pre-Note of Trades Report*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP-3401, *Investment True-Up of Trades Report*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP Report 5014, *Breakage by Agency Accounting Number*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP Report 5015, *Breakage by Participant Report*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP Report 5016, *Detailed Breakage Report by Participant*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP Report 31503, *Report of Detail Negative Adjustment Records Processed*, for various dates in the period of February 1, 2016 through February 28, 2017
- TSP Report 31504, *Summary of Negative Adjustments Processed*, for various dates in the period of February 1, 2016 through February 28, 2017
- AC/AU 201 Interfund Transfer Confirmation Notice by Paper for various dates in the period of February 1, 2016 through February 28, 2017
- AC/AU 203 Interfund Transfer Confirmation Notice by E-mail for various dates in the period of February 1, 2016 through February 28, 2017

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

Other Documents and Reports

- CliftonLarsonAllen's *Independent Auditor's Report*, dated April 18, 2016, and the related audited Thrift Savings Fund Financial Statements as of December 31, 2015 and 2014
- CliftonLarsonAllen's *Independent Auditor's Report*, dated April 13, 2017, and the related audited Thrift Savings Fund Financial Statements as of December 31, 2016 and 2015