



Employee Benefits Security Administration

Performance Audit of the Thrift Savings Plan Annuity Process

July 24, 2020

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EXECUTIVE SUMMARY

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

Michael Auerbach
Chief Accountant
U.S. Department of Labor, Employee Benefits Security Administration
Washington, D.C.

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) annuity process. Our fieldwork was performed from February 10, 2020 through May 1, 2020, including the fieldwork performed at Metropolitan Life Insurance Company (Metropolitan Life) offices in Tampa, Florida. Our scope period for testing was January 1, 2019 through December 31, 2019.

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 is 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 annuity process were to:

- Determine whether the Federal Retirement Thrift Investment Board’s Staff (Agency) implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under the Federal Employees’ Retirement System Act (FERSA) of 1986, as amended, and applicable Agency regulations; (3) perform due diligence reviews of the annuity vendor’s financial condition and evaluate the financial stability of the annuity vendor at the time of contract award and in subsequent years as prescribed under FERSA;
- Test compliance with 5 USC Sections 8434 and 5 USC 8435 (hereinafter referred to as FERSA), and 5 Code of Federal Regulations (CFR) Title 5, 1650.14, 1650.61, and 1651.2 (hereinafter referred to as Agency Regulations); and
- Determine the status of the prior EBSA TSP open recommendations reported in the *Performance Audit of the Thrift Savings Plan Annuity Process*, dated September 20, 2018.

The scope of this engagement excluded testing of TSP withdrawal-related procedures performed prior to the purchase of an annuity.

We present three new findings and recommendations related to controls over the annuity process, one of which addresses a fundamental control, and two of which address other controls. Fundamental control recommendations address significant¹ 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. All recommendations are intended to strengthen TSP processes. The Agency should review and consider these recommendations for timely implementation. Section III.C presents the details that support the current year findings and recommendations.

In addition, we identified one additional fundamental control finding related to timely notification and updates to the vendor’s annuity system for deceased annuitants. We noted that the annuity vendor had fully implemented additional procedures by the end of the scope period to better identify

¹ *Government Auditing Standards* section 6.04 defines significance in the context of a performance audit.

deceased annuitants. As a result, we determined a recommendation was not necessary and reported this finding in Section III.C for information purposes only.

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We conclude for the period January 1, 2019 through December 31, 2019, the Agency implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under FERSA and applicable Agency regulations; (3) perform due diligence reviews of the annuity vendor's financial condition and evaluate the financial stability of the annuity vendor at the time of contract award and in subsequent years as prescribed under FERSA. As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA or Agency Regulations.

We also reviewed one prior recommendation related to the TSP annuity 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 responses to the recommendations, including the Executive Director's formal reply, are included as an appendix within the report (Appendix A). The Agency concurred with all recommendations.

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

July 24, 2020

I. BACKGROUND OF THE TSP AND ANNUITY OPERATIONS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is the 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 December 31, 2019, had approximately \$632 billion in plan assets and approximately 5.9 million participants.²

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

B. The Metropolitan Life Insurance Company

The Board's Executive Director is required under FERSA to purchase annuity contracts on behalf of separated participants who have elected this withdrawal option. Metropolitan Life Insurance Company (Metropolitan Life) has been contracted by the Agency as the annuity vendor for the TSP. Metropolitan Life is responsible for establishing the account record and for making monthly annuity payments to the annuitant or beneficiary, as applicable. Metropolitan Life is required to provide each annuitant with annual tax information regarding his or her annuity.

The most recent Master Annuity Contract dated May 12, 2014, including applicable modifications, (Master Annuity Contract) between the Agency and Metropolitan Life, specifies the following monthly and annual reports for Metropolitan Life to submit to the Agency:

Summary Report - monthly report of the number of annuity purchases by annuity option and a breakdown of the amount of single premiums by annuity option.

² Source: "Thrift Savings Fund Statistics," Minutes of the January 27, 2020 Board Meeting, posted on the Board's website www.frtib.gov.

Detailed Annuity Report - monthly report listing annuity purchases, including annuitant's (1) name, (2) social security number, (3) address, (4) gender, (5) primary and joint annuitant's (if applicable) date of birth, (6) date of purchase, (7) amount of single premium, (8) annuity option selected, (9) initial monthly benefit, and (10) initial payment date.

Change Listing Report - monthly detail listing of changes made to annuities or the status of annuitants including (1) death of annuitant or joint annuitant, (2) CPI adjustments, (3) corrections of annuities incorrectly issued or reported, and (4) adjustments after the fact to annuity purchases (as in the case of Agency error in the purchase of the annuity).

Annual Summary Report - summary of annuities purchased during the year, by month and by annuity option.

Annual Detailed Report - detailed listing of all annuities purchased during the year, including annuitant's (1) name, (2) social security number, (3) address, (4) gender, (5) primary and joint annuitant's (if applicable) date of birth, (6) date of purchase, (7) amount of single premium, (8) annuity option selected, (9) initial monthly benefit, and (10) initial payment date.

The Agency reviews these reports to ensure that annuities are initiated and processed in accordance with the Master Annuity Contract and are in compliance with applicable regulations.

Operations at Metropolitan Life are audited by:

- Deloitte & Touche LLP (Metropolitan Life's independent auditors);
- Metropolitan Life's Internal Audit Department (Internal Audit); and
- New York State Department of Financial Services (DFS).

As part of our performance audit, we reviewed Deloitte & Touche LLP's audit report on Metropolitan Life's statutory financial statements and related notes for the fiscal years ended December 31, 2019 and 2018. Additionally, we reviewed the Type II Statement on Standards for Attestation Engagements No. 18 (SSAE 18) reports, issued by (Deloitte & Touche, LLP), titled

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] for the period October 1, 2018 through September 30,

2019, and the related bridge letters for the period October 1, 2019 through December 31, 2019. No matters were noted during our review of these documents that would impact our conclusions on the performance audit objectives listed in Section II.A of this report.

[REDACTED]

[REDACTED]

The DFS examines all insurance companies registered in New York State. The DFS’s examination focuses on market conduct, financial operations, contract compliance, and reserve analysis. The latest report, DFS’s *Report on Financial Examination of the Metropolitan Life Insurance Company*, dated June 5, 2015, is outside the current scope period.

C. TSP Annuity Requirements³

Eligibility

All separated participants can elect to purchase an annuity if their TSP participant account balance is at least \$3,500 when the annuity is purchased. If a mixed withdrawal (e.g., annuity and single payment) is elected, the portion elected for the purchase of the annuity must equal at least \$3,500 of the participant’s vested account balance.

Spouses’ Rights

FERS and Uniformed Service participants. For married FERS and uniformed service participants (even if the participant is separated from the spouse), the spouse is entitled to a survivor annuity unless he or she waives that right. The participant’s spouse must provide signed, notarized consent if the participant elects an annuity other than a joint life annuity with a

³ Source: *Withdrawing from Your TSP Account for Separated and Beneficiary Participants*, January 2020.

50 percent survivor (spouse) benefit, level payments, and no other features. If a married participant is unable to locate his or her spouse or if exceptional circumstances make it impossible or inappropriate for the spouse to sign a waiver, the participant must request an exception from this requirement of the spouse benefit. To request an exception, the participant must complete Form TSP-16 (or Form TSP-U-16), *Exception to Spousal Requirements*, and provide supporting documentation as described on that form.

Civil Service Retirement System (CSRS) participants. For married CSRS participants (even if the participant is separated from the spouse), the TSP must send a notice to the participant's spouse before the withdrawal is processed. If a married CSRS participant cannot provide the spouse's address, the participant may provide the spouse's social security number and request an exception. To request an exception, the participant must complete Form TSP-16 and provide supporting documentation as described on that form.

All participants. If the Agency has received a valid court order that awards all or part of a TSP account to a current or former spouse (including a separated spouse) or a valid order that requires payment for enforcement of child support or alimony obligations, the annuity request will not be accepted until the court order has been settled.

D. TSP Annuity Options⁴

Several types of life annuities are available to TSP participants. Within the different types of life annuities, TSP participants can select among 18 different options.

The types of TSP life annuities include:

- Single life annuities, with level payments or increasing payments,
- Joint life annuities with spouse, with level payments or increasing payments, and
- Joint life annuities with other survivor, with level payments.

Exhibit I-1 summarizes the 18 annuity options available to TSP participants. These annuity options include (1) 50 percent survivor annuity, (2) 100 percent survivor annuity, (3) cash refund, and (4) 10-year certain annuity.

⁴ Source: Your Annuity Options and Worksheet for Estimating a Monthly Annuity Payment, posted on tsp.gov as of March 2020; [REDACTED]

Summary of Annuity Options

Single Life	
1. Level Payments a) with no additional features or b) with cash refund feature or c) with 10-year certain feature	2. Increasing Payments a) with no additional features or b) with cash refund feature or c) with 10-year certain feature
Joint Life with Spouse	
3. Level Payments a) 100% survivor or b) 50% survivor or c) 100% survivor with cash refund or d) 50% survivor with cash refund	4. Increasing Payments a) 100% survivor or b) 50% survivor or c) 100% survivor with cash refund or d) 50% survivor with cash refund
Joint Life with Other Survivor	
5. Level Payments a) 100% survivor or b) 50% survivor or c) 100% survivor with cash refund or d) 50% survivor with cash refund	

The monthly annuity payment is affected by the following factors:

- The annuity option and feature chosen;
- The participant's age when the annuity is purchased (and the age of the spouse or other joint annuitant, if a joint life annuity is purchased);
- The amount used to purchase the annuity; and

- The interest rate index, annuity factor, interest adjustment factor, and annuity interest rate when the annuity is purchased.

The annuitant receives the first monthly payment approximately 30 days after purchase of the annuity. After purchasing an annuity, the annuitant is no longer a TSP participant. The annuitant's further communications concerning his or her annuity will be with the annuity vendor.

E. TSP Annuity Process

Federal Agencies and Uniformed Services

When a TSP participant leaves the government or uniformed services, the participant's agency or service must inform the TSP that the participant has separated by submitting a TSP separation code and the date of separation. The participant's annuity request cannot be processed until the TSP has received all of the separation information.

TSP and the Agency

Similar to all other withdrawal requests, participants must submit form TSP-99, *Withdrawal Request for Separated and Beneficiary Participants*, to the TSP, which is processed through the TSP service providers' processing center. Prior to September 2019, participants were required to complete form TSP-70, *Request for Full Withdrawal*. Once the form is received, the TSP service provider scans the form into the imaging system and completes the remaining intake procedures. After the related data is validated and the withdrawal request is approved, it is automatically transferred to the TSP system where additional edit checks are performed.

If the withdrawal request passes the remaining edit checks, it is automatically transmitted to the annuity vendor's system through an electronic interface. Additionally, an automated payment file is sent to Treasury and Treasury sends the transfer of funds, for the daily annuity purchases, to the annuity vendor. For those withdrawal requests that fail the edit checks in the TSP system, an error report is generated nightly and the special processing unit works to resolve the errors identified.

The Agency also reviews reports submitted by Metropolitan Life, described in Section I.B, to ensure that annuity processing complies with TSP regulations and guidelines outlined in the Master Annuity Contract.

Annuity Vendor

Upon receipt of annuitant information from the TSP, Metropolitan Life monitors and inputs certain variable information (e.g., monthly interest rate) into the annuity system, which then calculates the monthly annuity payment for annuities purchased during that month.

Once Metropolitan Life staff receives a new annuitant [REDACTED] from the annuity system, the staff sends the TSP participant a "Welcome Letter," an annuity certificate, Banking Agreement for Direct Deposit of Annuity Payments, and the tax form W-4P for Federal tax withholdings. The Welcome Letter indicates the amount used to purchase the annuity (i.e., the amount received from the TSP), the calculated monthly annuity payment, and the approximate date on which the annuitant will receive the first annuity payment. The Welcome Letter also includes a toll-free telephone number that the participant can call to request changes to his/her address and federal and state tax withholding allowances, and for answers to other questions regarding his or her annuity. The initial monthly annuity payment is sent to the individual approximately 30 days after the purchase of the annuity.

On an ongoing basis, Metropolitan Life is responsible for paying timely monthly annuities, processing administrative changes such as addresses or beneficiaries, and communicating required tax information. Metropolitan Life also adjusts monthly annuities on an annual basis for increases in the Consumer Price Index (CPI; applicable to annuities with the increasing payments option) and for the death of joint annuitants.

Metropolitan Life is responsible for calculating the monthly annuity interest rate used in the calculation of monthly annuity payments. [REDACTED] [REDACTED] preceding the purchase of the annuity, as published by the Intercontinental Exchange, in accordance with the Master Annuity Contract. Metropolitan Life calculates the annuity interest rate for each month of the year and communicates the rate to the Agency.

The CPI factor, calculated annually by Metropolitan Life, is confirmed by the Agency and is applicable to all increasing annuities on their anniversary (or "commencement") date in the upcoming calendar year. [REDACTED]
[REDACTED]

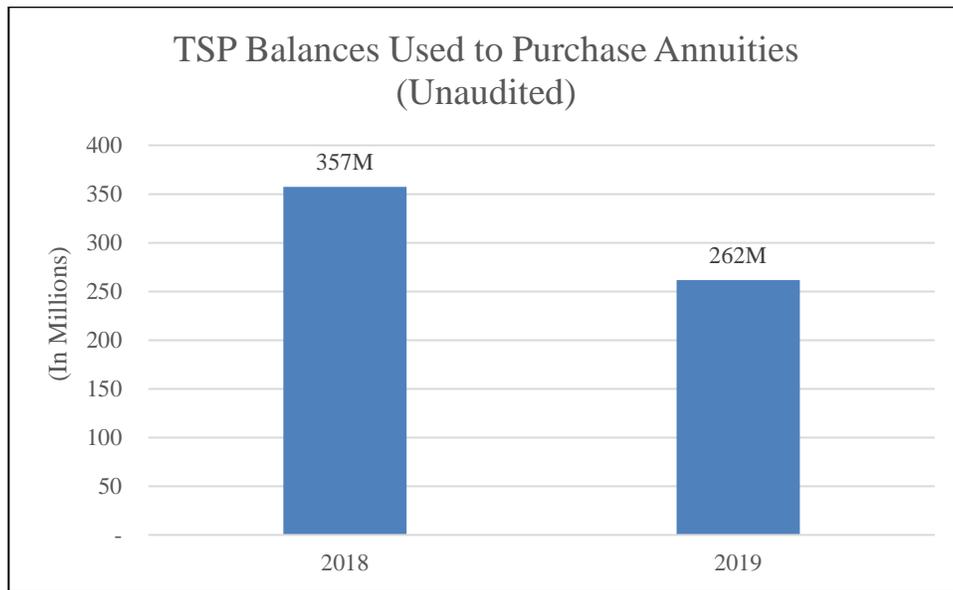
On a monthly basis, Metropolitan Life reconciles the Agency’s total disbursements to Metropolitan Life’s total annuity purchases, in order to determine the completeness and accuracy of TSP purchases recorded in Metropolitan Life’s annuity system. The Agency reviews and recalculates this reconciliation, notifying and discussing any differences with Metropolitan Life.

As described in Section I.B, Metropolitan Life prepares reports, on a monthly and annual basis, that summarize annuity purchases during the period. Metropolitan Life sends these reports to the Agency, as required by the Master Annuity Contract.

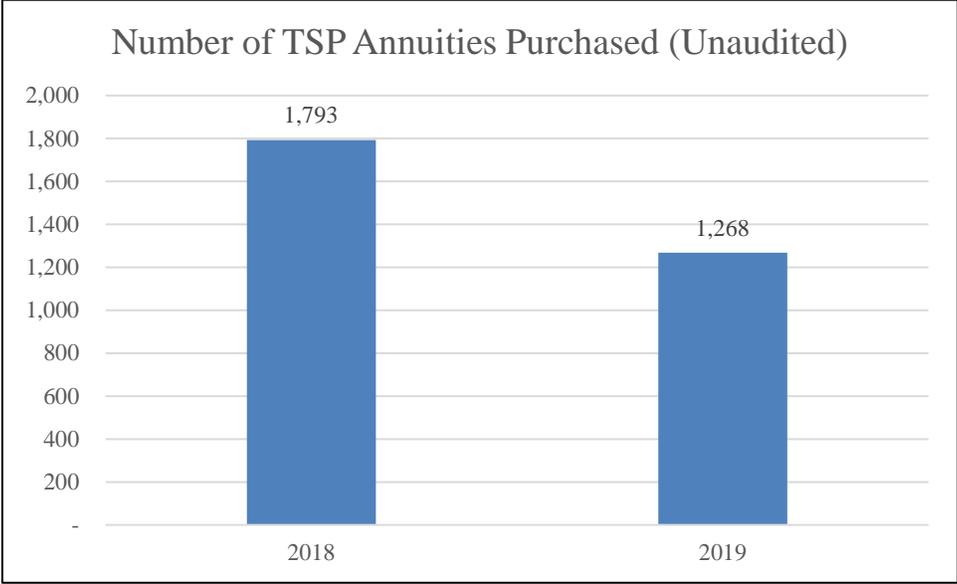
F. TSP Annuity Statistics⁵

Exhibits I-2 and I-3, respectively, illustrate the original dollar amounts and the total number of annuities that were purchased for TSP participants in calendar years 2018 and 2019.

Exhibit I-2



⁵ Source: [REDACTED]



II. OBJECTIVE, SCOPE AND METHODOLOGY

A. Objectives

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

The objectives of our performance audit over the TSP annuity process were to:

- Determine whether the Federal Retirement Thrift Investment Board's Staff (Agency) implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under the Federal Employees' Retirement System Act (FERSA) of 1986, as amended, and applicable Agency regulations; (3) perform due diligence reviews of the annuity vendor's financial condition and evaluate the financial stability of the annuity vendor at the time of contract award and in subsequent years as prescribed under FERSA.
- Test compliance with 5 USC Sections 8434 and 8435 (hereinafter referred to as FERSA) and 5 CFR 1650.14 and 1650.61 (hereinafter referred to as Agency Regulations); and
- Determine the status of the prior EBSA TSP open recommendations reported in the *Performance Audit of the Thrift Savings Plan Annuity Process*, dated February 3, 2017.

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 January 1, 2019 through December 31, 2019. 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

the TSP annuities process. Arranging the engagement included contacting the Agency and Metropolitan Life 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 walkthroughs, and designed and performed tests of controls and compliance. We conducted these test procedures primarily at the annuity vendor's location in Tampa, Florida. In Appendix B, we identify the key documentation provided by Agency personnel that we reviewed during our performance audit.

Our performance audit procedures included selecting a [REDACTED] sample to select specific TSP annuity transactions, which we used to determine if the Agency processed annuity transactions in a manner that complied with FERSA and Agency Regulations. We selected the following sample in this manner:

- [REDACTED]
- [REDACTED]
- [REDACTED]

We excluded from this audit the consideration of the TSP withdrawal-related procedures performed prior to the purchase of an annuity. These procedures are addressed separately within the overall EBSA *Thrift Savings Plan Fiduciary Oversight Program*.

The reporting 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) annuity process while conducting a performance audit primarily at Metropolitan Life Insurance Company (Metropolitan Life). Our scope period for testing was January 1, 2019 through December 31, 2019. 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.

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We conclude for the period January 1, 2019 through December 31, 2019, the Federal Retirement Thrift Investment Board's Staff (Agency) implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under FERSA; (3) perform due diligence reviews of the annuity vendor's financial condition and evaluate the financial stability of the annuity vendor at the time of contract award and in subsequent years. As a result of our compliance testing, we did not identify any instances of noncompliance with United States Code (USC), Title 5, Chapter 84, Section 34 and 5 USC 8435 or with the Code of Federal Regulations (CFR), Title 5, 1650.14, 5 CFR 1650.61, or 5 CFR 1651.2. However, we noted an internal control weakness that could adversely affect the TSP annuity process.

We present three new findings and recommendations, presented in Section III.C, related to the TSP annuity vendor process; one addressing a fundamental control and two addressing other controls. 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 recommendations are intended to strengthen the TSP annuity process. The Agency should review and consider the recommendations for timely implementation. The Agency's response to the recommendations are included as an appendix within this report (Appendix A).

In addition, we identified one additional fundamental control finding related to timely notification and updates to the vendor's annuity system for deceased annuitants. We noted that the annuity vendor had fully implemented additional procedures by the end of the scope period to better identify

deceased annuitants. As a result, we determined a recommendation was not necessary and reported this finding in Section III.C below for information purposes only.

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

Section III.C presents the new findings and recommendations, as applicable, from this performance audit. Section III.D summarizes the open recommendations.

B. Finding and Recommendation from Prior Reports

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

2018 Annuity Process Recommendation No. 1

Title: Weaknesses in Spousal Notification of Annuity Withdrawals

Original Recommendation: The Agency should enhance monitoring procedures over the service provider to ensure internal controls over the processing of forms are operating effectively and provide additional training related to these controls, as necessary.

Reason for Recommendation We selected a sample of ■ annuity withdrawals for testing. For ■ of the ■ sample items selected for the testing, the Agency did not complete the required spousal notification for a Civil Service Retirement System (CSRS) participant that elected a post-employment annuity withdrawal.

The exception occurred because of a data entry error by the Agency's service provider. Specifically, the service provider did not enter the relevant spousal information from the annuitant's form TSP-70 *Request for Full Withdrawal* into the TSP system.

Status:

Implemented.

We inspected the Agency's *Service Provider Performance Oversight Procedures*, dated August 31, 2017, noting that the Agency had policies and procedures in place to specifically monitor service provider performance for the annuity contract. We also inspected a completed data entry training acknowledgement, dated November 26, 2018, which evidenced that training was provided for data entry operators at the service provider. As a result, this recommendation is considered implemented and closed.

Disposition:

Recommendation Closed.

C. 2020 Findings and Recommendations

While conducting our performance audit over the TSP annuity operations process, we identified four new findings and developed three related recommendations. One finding did not require a recommendation, as discussed below. EBSA requests appropriate and timely action for the recommendation.

FUNDAMENTAL CONTROL FINDINGS AND RECOMMENDATIONS

2020-01: Inaccurate Virginia State Withholdings Calculation

During our current year audit procedures, we tested a sample of [REDACTED] new annuitants and identified [REDACTED] instances in which the amount of state withholding taxes was incorrect in the vendor's annuity system.

The exceptions occurred because the annuity vendor did not update the Virginia state tax calculations in its annuity system to reflect the 2019 revisions to the tax code. As a result, the incorrect calculation was used in the annuity system to determine Virginia tax withholdings.

The GAO's *Standards for Internal Control in the Federal Government*, Principle 10.03 states,

Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. In addition, management designs control activities so that all transactions are completely and accurately recorded.

- 1. The Agency should work with the annuity vendor to develop and implement a process to verify the vendor's annuity system is updated annually to properly reflect the changes to the applicable tax codes, as needed.**

Incomplete updates to the vendor's annuity system, specifically related to tax withholding tables, may result in an increased risk that state tax withholdings are inaccurately calculated and withheld from the annuitant payment.

OTHER CONTROL RECOMMENDATIONS

2020-02: Untimely Monthly Annuity Payment

During our current year audit procedures, we tested a sample of [REDACTED] new annuitants and identified [REDACTED] instance in which the annuity vendor did not timely pay an annuitant's monthly payment.

The exception occurred because a change in the annuitant's bank information resulted in the rejection of the initial payment in July 2019; however, the annuity vendor did not have sufficient monitoring controls in place to ensure a subsequent payment of the rejected payment was made once the banking information was correctly updated in the vendor's annuity system the following month. As a result, the July 2019 rejected payment was not paid until February 2020, after it was brought to the attention of the annuity vendor through the audit.

The GAO's *Standards for Internal Control in the Federal Government*, Principle 10.03 states,

“Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

- 2. The Agency should work with the annuity vendor to verify that policies and procedures are fully designed and implemented to monitor rejected monthly payments, investigate the reason for the returned payment, and timely repay the monthly payment manually to the annuitant.**

Without sufficient execution of annuitant information data changes, there is an increased risk of inaccurate or untimely processing of annuitant payments.

2020-03: Weakness in Annuity Vendor Address Information Update

During our current year audit procedures, we tested a sample of [REDACTED] new annuitants and identified [REDACTED] instance in which the annuity vendor did not completely update the annuitant’s monthly withholding state after the annuitant moved from a non-exempt state to an exempt state.

When the annuity vendor processes an address change, they must update the address information in multiple places within the vendor’s annuity system. In this instance, the annuity vendor did not update the annuitant’s address information in the portion of the annuity system that calculates state withholdings each month.

The GAO's *Standards for Internal Control in the Federal Government*, Principle 10.03 states,

“Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk

responses in the internal control system. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

- 3. The Agency should work with the annuity vendor to verify that policies and procedures are developed and fully implemented over the review of updates to annuitant address information to ensure the completeness and accuracy of the change request.**

Incomplete updates to annuitant information may result in an increased risk that state tax withholdings are incorrectly calculated and withheld from the annuitant payment.

FUNDAMENTAL CONTROL FINDINGS WITHOUT RECOMMENDATIONS

During our current year audit procedures, we tested a sample of [REDACTED] deceased annuitants and identified [REDACTED] instances in which the annuitant death was not timely recorded in the vendor’s annuity system. For those seven instances, we noted that the annuitants’ death was recorded in the annuity system between 1.2 and 6.4 years after the actual date of death. The number of exceptions noted were a significant increase as compared to prior year audits as well as an increase in the length of time between the annuitant death and the recording of the death in the vendor’s annuity system. Additionally, we noted during testing that the annuity vendor timely processed the death in the annuity system once it received notification of an annuitant’s death.

We also noted that for one of the exceptions the annuity vendor continued to incorrectly pay the surviving joint annuitant the full monthly benefit, instead of the reduced amount, for approximately four years after the joint annuitant’s death resulting in an overpayment of approximately \$15,000. There were no overpayments associated with the other exceptions because the continued payments to the surviving annuitant or beneficiary did not require a reduction based on the type of annuity selected.

The exceptions occurred because the annuity vendor is initially reliant upon joint annuitants or beneficiaries timely reporting the death of an annuitant, either directly to the annuity vendor or reporting the death to federal or state and local authorities. When an annuitant’s death is not

directly reported to the annuity vendor, the annuity vendor has historically had a process in place to perform a monthly electronic death match to identify deceased annuitants utilizing a database hosted by the Social Security Administration (SSA). Without timely identification of deceased annuitants, there is an increased risk of inaccurate or erroneous payments to annuitants that are no longer eligible to receive annuity payments.

Although we did identify an increased number of exceptions during current year testing, we did note that the annuity vendor implemented enhanced processes during the scope period to expand its capabilities to search additional databases, beyond the one hosted by SSA, in which annuitant deaths could be identified. The enhanced processes were initially implemented on a pilot basis but were fully implemented by the end of the scope period. Given the steps the annuity vendor has taken to address this matter, we did not consider a recommendation necessary related to this finding.

D. Summary of Open Recommendations

2020 RECOMMENDATIONS:

RECOMMENDATIONS TO ADDRESS FUNDAMENTAL CONTROLS

1. The Agency should work with the annuity vendor to develop and implement a process to verify the vendor's annuity system is updated annually to properly reflect the changes to the applicable tax codes, as needed.

RECOMMENDATIONS TO ADDRESS OTHER CONTROLS

2. The Agency should work with the annuity vendor to verify that policies and procedures are fully designed and implemented to monitor rejected monthly payments, investigate the reason for the returned payment, and timely repay the monthly payment manually to the annuitant.
3. The Agency should work with the annuity vendor to verify that policies and procedures are developed and fully implemented over the review of updates to annuitant address information to ensure the completeness and accuracy of the change request.

AGENCY'S RESPONSE



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

July 24, 2020

Mr. Michael Auerbach
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 dated June 24, 2020, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Annuity Process dated July 2020. 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**

Ravindra Deo

Digitally signed by RAVINDRA DEO
DN: c=US, o=U.S. Government, ou=Federal
Retirement Thrift Investment Board,
cn=RAVINDRA DEO,
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Enclosure

AGENCY'S RESPONSE, CONTINUED

Executive Director's Staff Draft Comments on the
Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan
Annuity Process

FUNDAMENTAL CONTROL FINDINGS AND RECOMMENDATIONS**2020-01: Inaccurate Virginia State Withholdings Calculation**

The Agency should work with the annuity vendor to develop and implement a process to verify the vendor's annuity system is updated annually to properly reflect the changes to the applicable tax codes, as needed.

Agency Response to 2020-01:

The Agency and MetLife concur with the recommendation.

MetLife is in the process of updating the Virginia state tax table which is scheduled to be completed by July 2020. MetLife also implemented controls in Q1 2020 to timely capture state withholding calculation changes. Additional controls will include updating the tax tables annually, if applicable.

2020-02: Untimely Monthly Annuity Payment

The Agency should work with the annuity vendor to verify that policies and procedures are fully designed and implemented to monitor rejected monthly payments, investigate the reason for the returned payment, and timely repay the monthly payment manually to the annuitant.

Agency Response to 2020-02:

The Agency and MetLife concur with the recommendation.

MetLife has implemented enhanced controls to mitigate the risk of a rejected payment(s) not being reissued timely. MetLife's Standard Operating Procedure (SOP) document has been updated to include the new approval process. Closure of the recommendation will go through the agency's corrective action plan process. The Agency plans to close this recommendation by September 30, 2020.

2020-03: Weakness in Annuity Vendor Address Information Update

AGENCY'S RESPONSE, CONTINUED

The Agency should work with the annuity vendor to verify that policies and procedures are developed and fully implemented over the review of updates to annuitant address information to ensure the completeness and accuracy of the change request.

Agency Response to 2020-03:

The Agency and MetLife concur with the recommendation.

MetLife has implemented enhanced controls to monitor the timely and accurate capture of address and state withholding calculation changes. The enhanced controls included updating the Standard Operating Procedures for new employees who process these changes and are required to have these types of transactions approved by a supervisor. Closure of the recommendation will go through the agency's corrective action plan process. The Agency plans to close this recommendation by September 30, 2020.

