



Employee Benefits Security Administration

Performance Audit of Certain Thrift Savings Plan Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff

September 22, 2016

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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) plan administration, procurement, and investment policies and procedures of the Federal Retirement Thrift Investment Board Administrative Staff (Agency). Our fieldwork was performed from June 15, 2015 through August 15, 2015, primarily at the Agency's headquarters in Washington, D.C. Our scope period for testing was January 1, 2015 through December 31, 2015.

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 audit objectives. Criteria used for this audit is defined in the EBSA's *Thrift Savings Plan Fiduciary Oversight Program*; United States Code (USC) Title 5, Chapter 84; and Code of Federal Regulations (CFR) Title 5, Parts 2634 and 2638.

The objectives of our audit over the TSP policies and procedures of the Agency were to:

- Determine if the Agency implemented certain procedures to: (1) monitor the authorization and reasonableness of administrative expenses; (2) process newly hired employees and separating employees; (3) identify risks to the entity through an internal audit division or other mechanisms; (4) procure goods and services in accordance with federal regulations; (5) maintain a code of conduct for the procurement function; (6) monitor the receipt of services;

(7) accurately record investment activity in the accounting records; (8) calculate the daily value of each fund's investments based on the net yield of the investments, less authorized administrative expenses, commissions, and fees; (9) monitor investment operations and prescribe regulations over the authorization of administrative expenses for investment management activities; and (10) monitor investment results and maintain policies to provide retirement benefits to participants and beneficiaries in accordance with federal law;

- Test compliance with 5 USC 8439(a)(3), 5 USC 8472, 5 USC 8473(a), 5 USC 8474(b)(5), 5 USC 8475, 5 USC 8477(b), 5 USC 8477(c) (hereinafter referred to as FERSA), and 5 CFR, Parts 2634.201 and 2638.705 (hereinafter referred to as Agency Regulations); and
- Determine the status of the prior EBSA TSP open recommendation reported in the *Performance Audit of Certain Thrift Savings Plan Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff, September 27, 2012*.

We present two new recommendations, presented in Section III.C, related to controls over the procurement process, one of which addresses fundamental controls and one of which addresses 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. Both recommendations are intended to strengthen the TSP procurement process. 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.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2015 through December 31, 2015, the Agency implemented certain procedures to (1) monitor the authorization and reasonableness of administrative expenses; (2) process newly hired employees and separating employees; (3) identify risks to the entity through an internal audit division or other mechanisms; (4) procure goods and services in accordance with federal regulations; (5) maintain a code of conduct for the procurement function; (6) monitor the receipt of services; (7) accurately record investment activity in the accounting records; (8) calculate the daily value of each fund's investments based on the net yield of the investments, less authorized administrative expenses, commissions, and fees; (9) monitor investment operations and prescribe regulations over the authorization of administrative expenses for investment management activities; and (10) monitor

investment results and maintain policies to provide retirement benefits to participants and beneficiaries in accordance with federal law. As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA or Agency Regulations. However, as indicated above, we noted internal control deficiencies related to the Agency's TSP procurement process.

We also reviewed one prior EBSA recommendation related to the TSP procurement 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 the 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

September 22, 2016

I. BACKGROUND OF THE TSP AND THE TSP ADMINISTRATIVE 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 the uniformed services, and members of Congress and certain Congressional employees. The TSP began accepting contributions on April 1, 1987, and as of December 31, 2015, had approximately \$458 billion in assets and approximately 4.9 million participants¹.

The FERSA 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 (Agency) is responsible for administering TSP operations.

B. Overview of the TSP Administrative Operations

The Agency assists the Executive Director in managing the daily operations of the TSP. In addition to other activities, this management includes arranging for the investment of participant account balances held in the Thrift Savings Fund (TSF) in accordance with participant selections; procuring resources needed for the administration of the TSP program; and managing the accounting and budget functions of the TSP.

1. Investment Process²

FERSA, as amended, requires the TSP to offer five investment options: Government Securities Investment Fund (G Fund), Fixed Income Index Investment Fund (F Fund), Common Stock Index Investment Fund (C Fund), Small Capitalization Stock Index Fund (S Fund), and International Stock Index Investment Fund (I Fund). Participants may also choose to invest their contributions

¹ Source: Minutes of the January 25, 2016, Federal Retirement Thrift Investment Board meeting, posted on www.frtib.gov.

² Sources: Agency Policies and Procedures Manual, Sections IN-1 dated November 15, 2010; IN-2 dated December 1, 2010; and AMI-1, dated July 9, 2012.

in the Lifecycle Funds (L Funds), which are portfolio funds comprised of the G, F, C, S, and I Funds that use professionally designed investment mixes (allocations) tailored to five different time horizons.

The Board has been designated to establish these investment funds under FERSA. In addition, the Board is responsible for establishing policies for TSP investment management.

G Fund

The Secretary of the Department of the Treasury (Treasury) is authorized by FERSA to issue special non-marketable interest-bearing obligations of the United States for purchase by the TSP for the G Fund. Such obligations are to have fixed maturities as determined by the Executive Director and are to bear interest at a rate equal to the average market yield (computed by the Secretary of the Treasury on the basis of market quotations as of the end of the calendar month preceding the date of issue of the obligations) of all marketable interest-bearing obligations of the United States not due or callable earlier than four years after the end of such calendar month.

The Treasury's Office of Debt Management calculates the G Fund interest rate monthly and provides the rate to the Agency's Office of Investments and to the Treasury's Federal Investments Branch (FIB) of the Bureau of Fiscal Services. The rate applies for the entire month. FIB communicates the monthly G Fund interest rate to the Agency's Office of the Chief Financial Officer (OCFO) - Accounting Division on the day it is received.

Each day the Agency's OCFO - Fund Management Division calculates the G Fund investment amount using the Cash Flow Investment System. The Fund Management Division reviews the calculated investment amount and then submits an investment purchase request to the Treasury using FedInvest³. Once the request is submitted, FedInvest produces an electronic confirmation with the details of the investment purchase. The Fund Management Division then reconciles the confirmation to its records. The earnings on investments in the G Fund are referred to as "GSIF interest."

³ FedInvest is a Treasury web-based application that allows Federal agencies to buy and sell securities and view their investment account activity.

F, C, S, and I Funds

FERSA requires the Board to develop prudent investment policies which provide opportunities to accumulate retirement income while incurring low administrative costs. To the extent required by FERSA, the Agency diversifies the investments of the funds so as to minimize the risk of large losses, unless under the circumstance it is clearly prudent not to do so.

The U.S. Code requires the F Fund to be invested in one or all of the following: 1) insurance contracts; 2) certificates of deposits; or 3) other instruments or obligations selected by qualified professional asset managers, which return the amount invested and pay interest at a specified rate or rates on that amount during a specified period of time. As such, the Board has chosen to invest the F Fund contributions in a portfolio that consists of U.S. Government, corporate, foreign government and mortgage-backed securities.

The C Fund contributions are invested in a portfolio designed such that, to the extent practicable, the percentage of the C Fund that is invested in each stock is the same as the percentage determined by dividing the aggregate market value of all shares of that stock by the aggregate market value of all shares of all stocks included in a predetermined index. The Board is responsible for selecting a commonly recognized index comprised of common stock where the aggregate market value is a reasonably complete representation of the United States equity markets.

The S Fund contributions are invested in a portfolio designed such that, to the extent practicable, the percentage of the S Fund that is invested in each stock is the same as the percentage determined by dividing the aggregate market value of all shares of that stock by the aggregate market value of all shares of all stocks included in the predetermined index. The Board is responsible for selecting a commonly recognized index comprised of stock where the aggregate market value is a reasonably complete representation of the United States equity markets, excluding those common stocks included in the C Fund.

The I Fund contributions are invested in a portfolio designed such that, to the extent practicable, the percentage of the I Fund that is invested in each stock is the same as the percentage determined by dividing the aggregate market value of all shares of that stock by the aggregate market value of all shares of all stocks included in the predetermined index. The Board is responsible for selecting a commonly recognized index comprised of stock where the aggregate market values are a

reasonably complete representation of the international equity markets excluding the United States equity markets.

The Fund Management Division calculates investment amount for the F, C, S, and I Funds, which are currently managed by BlackRock Institutional Trust Company, N.A. (BTC). The OCFO determines all participant election activity that has occurred for that trade date, such as contributions, loans, withdrawals, and interfund transfers. The investment amounts for the F, C, S, and I Funds that are committed to BTC but not yet transferred are “held back” in the G Fund to avoid market exposure until disbursement. Additionally, check disbursements not yet processed by Treasury are also “held back” in the G Fund until disbursement due to the float period recognized for check disbursements.

After the OCFO notifies BTC via electronic submission on each trade date with the transfer amount, BTC sends an electronic confirmation (via email) of the investment amounts to the OCFO – Fund Management Division. The Fund Management Division verifies the confirmation and authorizes the wire transfer, which will be transmitted to BTC the following business day (i.e., settlement date) via the U.S. Treasury Secure Payment System (SPS). Confirmations of the wire transfers are printed from the SPS and held until matched to amounts reflected on BTC’s daily settlement reports.

Withdrawals from F, C, S, and I Funds will be performed on a net basis (only when participant withdrawals and interfund transfers exceed participant contributions). The procedures for withdrawals follow those for investing in the F, C, S, and I Funds.

BTC’s Client Reporting Group sends investment reports for the F, C, S, and I Funds to the OCFO on a daily basis. The investment reports detail the market and book values of day’s-end investment balances, investment transactions, and the earnings on investments. The Accounting Division reconciles this summary to the TSP accounting records.

L Funds

As discussed above, the L Funds diversify participant accounts among the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to five specific time horizons. The L Funds are automatically re-balanced by the TSP record keeping system (TSP system) to their target allocations each business day. The investment mix of four of the five funds

adjusts quarterly to more conservative investments as the fund's time horizon shortens. These quarterly adjustments are pre-determined based on the fund design and are reviewed for reasonableness at least annually by both the Office of Investments and an investment consulting firm. The asset allocations are based on consulting firm's economic assumptions regarding future investment returns, inflation, economic growth, and interest rates. The consulting firm reviews these assumptions at least annually and determines whether changes to the allocations are warranted.

Calculation of Daily Value of Investments

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, GSIF interest, and accrued expenses.

Shares outstanding are retrieved by the AMI from the TSP system. Market earnings (F, C, S, and I Funds only) are retrieved from BTC and are equal to the change in the settled market value of the investments from the prior business day minus the proceeds of the prior day's trade. GSIF interest is calculated each business day based on invested balances and the G Fund interest rate, which is determined on the first business day of the month by Treasury. The Agency's OCFO calculates daily accrued expenses, net of forfeitures, on the first business day of each month.

2. Procurement Process⁴

The Agency uses the Obligation Tracking and Invoicing System (OTIS) to manage its procurement process. Six main types of requisitions are available to users within OTIS: Standard, Blanket Purchase Agreement, Publications, SF1 (Printing and Binding Requisition to the Public Printer), Training, and Travel. These requisitions are differentiated by either the requisitioner's need or the type of anticipated award. Depending on the type of requisition selected, different data values, approval processes(s), award forms, and/or obligation forms may be used. The Agency creates and processes the requisitions and the obligation documents within OTIS.

⁴ Source: Agency's *Procurement Policy, Guidelines, and Procedures Manual*, Directive Number 12A, dated May 13, 1994; *Purchase Card Policy* dated March 31, 2014; *Memorandum on Policy on Micro-Purchase and Simplified Acquisition Threshold* dated November 6, 2012; and *Contracting Policy* dated April 2, 2015.

Items that are less than or equal to \$15,000 can be procured by the purchasing officer with an Agency-issued credit card. However, if the amount is greater than \$15,000, price comparisons must be made and the lowest cost selected. In the case of purchases over \$15,000 but less than \$250,000, a requisition must be completed and proper approvals received. Purchases of amounts greater than \$250,000 are subject to competitive bidding, unless the Agency grants, and can justify, issuing a “sole-source” contract.

During the funding phase, the requisitioner works with the Contracting Officer (CO) to determine the appropriate documentation for the specific request, such as the Statement of Work, Statement of Objectives, Performance Work Statement, Sole Source Justification, Independent Government Cost Estimate, Market Research, Evaluation Criteria and Requirements. Once the requisition is created, the requisitioner selects a vendor from the OTIS vendor records. A budget function code is then selected, which specifies the fiscal year and receiving office. OTIS automatically generates a requisition form based on the information entered, and the requisitioner then proceeds to upload supporting documentation to the requisition. Once these steps are completed, the requisitioner submits the requisition for review through OTIS, which puts the requisition into the Director/Manager’s queue. The Director/Manager reviews the requisition. If it is approved, the requisition is moved into the Office of the Chief Operating Officer - Budget Division’s queue for certification of funds availability, but if it is rejected, the requisition returns to the requisitioner’s queue where it is either deleted or modified and resubmitted into the approval process. If a requisition is approved by the Budget Division, the requisition is sent to the OCFO Contracting Division for final approval by either the CO or Contract Specialist. If the Contracting Division or the Budget Division rejects the requisition, it is returned to the Director/Manager queue for review.

The Agency does not have a separate approval process for solicitations as the related requisitions have already been approved at the Director level. If an additional approval is deemed necessary, it is setup ad-hoc, in which case a solicitation is created by the Contracting Division personnel. The Contracting Division personnel then log into the Solutions for Enterprise-Wide Procurement system to post the solicitation, receive quotes, and award task orders.

The responsibility to monitor contracts is the responsibility of the respective CO. Paper records and equivalent electronic data records are maintained at the Agency’s offices at least as long as provided for in the Federal Acquisition Regulations (FAR).

3. Disbursement Process⁵

With processing administrative expenses, the Agency purchases items in accordance with its internal purchasing guidelines. These guidelines generally follow the FAR and are described above in the Procurement Process section. The Executive Director has contracted with the Department of the Interior's Interior Business Center (IBC) to process the Agency's disbursements for administrative expenses.

Received goods are reviewed by the ordering party or an administrative clerk to determine that the goods match the purchase order. If a discrepancy exists, the vendor is contacted and the matter resolved. When the invoice is received, either with the delivery of the goods or via mail, it is logged into OTIS by financial specialist, and the transaction case files attached in OTIS are reviewed by the Accounting Division to ensure the invoice is not a duplicate. Additionally, the financial specialist verifies with the appropriate office that the goods were received and requests that the requisitioning office approves the invoice.

Upon approval by the Director of the requisitioning office, invoices are sent back to the Accounting Division to be reviewed and certified. From OTIS, the Accounting Division prepares a transmittal report containing a detailed record of all amounts to be paid. The Accounting Division also includes the certified vendor invoices along with the transmittal letter. The Accounting Division emails the transmittal package to IBC. IBC then reviews the transmittal package and processes the obligating documents and invoices to ensure payments are made within 30 days of receipt.

IBC prepares a File Transfer Protocol (FTP) file indicating the vendor and payment amount. The file is sent to Treasury for disbursement of checks or Electronic Fund Transfer (EFT) payments to the vendor, while also updating IBC's payment system. The Accounting Division downloads payment information daily from IBC's on-line accounting system to update OTIS and reduce open accounts payable.

Agency employees are paid bi-weekly through the use of the IBC's Federal Personnel Payroll System (FPPS). FPPS is an electronic, personnel and payroll management system that integrates with IBC's time and attendance and employee leave-reporting system, which reports payroll

⁵ Source: Agency's *Procurement Policy, Guidelines, and Procedures Manual*, Directive Number 12A, dated May 13, 1994

information to IBC. At the end of every payroll period, the office timekeepers are responsible for validating base schedules within QuickTime for their respective offices. The timekeepers are responsible for tracking time daily for employees in their office using the QuickTime system. Office Directors review and certify the time schedules for each office, and a designated alternate reviews and certifies the Office Directors' time schedules. Upon approval of the time schedules, they are electronically submitted to IBC for each employee.

Two days before payday, the Agency sends IBC a detail report of all time and attendance records, which is followed in the next day by a summary report in the form of an FTP file indicating the amount of the employee expenses for that pay period. IBC then performs a reconciliation of the two reports. Employee salary expenses are recorded in OTIS and the Agency's general ledger system on payday.

Agency disbursements processed by IBC during the month are listed on the Monthly Statement of Transaction by the Accounting Division and are reconciled to the accounting records, the Central Accounting Reporting System, and the Intra-Governmental Payment and Collection system by both IBC and an Agency accountant.

4. Budgeting Process⁶

The budget formulation process for the various Agency offices begins no later than June or July for the subsequent fiscal year. The offices are asked to submit budget information via OTIS. The OCFO compiles all of the offices' budget information and submits a consolidated budget justification draft to the Executive Director for approval that includes percentage changes between the proposed budget and the prior year approved budget. The Executive Director questions individual Office Directors on specific expense items as necessary. Once the Executive Director is satisfied with the contents of the proposed budget, he submits it, along with an attached memorandum describing the basis for certain assumptions made about financial needs in the upcoming year, to the Board for approval. The Board's budget vote generally occurs at the September Board meeting for the fiscal year beginning October 1.

During the year, as funds are obligated, office obligations are monitored by the Office Directors using OTIS to ensure they do not exceed the budget. In those cases where an obligation is needed

⁶ Source: Agency's *Budget Directive*, Directive Number 001, dated September 22, 2011

but office funds are insufficient, the Executive Director must authorize the obligation. Additionally, the Executive Director semi-annually performs a review of each office's budgetary status to determine if current resource levels are adequate and that resources are being used appropriately.

5. Personnel Data⁷

The Agency has also contracted with [REDACTED] to provide base-level personnel and payroll support. Once an individual is hired by the Agency, the new employee completes all the necessary paperwork, and the Human Resources Division enters the data into [REDACTED] FPPS. Functions performed by the Human Resources Division at the Agency include recruiting and staffing, developing position descriptions and classifications, overseeing employee relations, coordinating training needs, and generating internal personnel policy recommendations. [REDACTED]

[REDACTED]

⁷ Source: Agency's Accounting Policies and Procedures Manual, OTIS-10, dated November 8, 2010

II. OBJECTIVE, SCOPE AND METHODOLOGY

A. Objective

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) plan administration, procurement, and investment policies and procedures of the Federal Retirement Thrift Investment Board (the Board) Administrative Staff (Agency).

The objectives of this performance audit were to:

- Determine if the Agency implemented certain procedures to: (1) monitor the authorization and reasonableness of administrative expenses; (2) process newly hired employees and separating employees; (3) identify risks to the entity through an internal audit division or other mechanisms; (4) procure goods and services in accordance with federal regulations; (5) maintain a code of conduct for the procurement function; (6) monitor the receipt of services; (7) accurately record investment activity in the accounting records; (8) calculate the daily value of each fund's investments based on the net yield of the investments, less authorized administrative expenses, commissions, and fees; (9) monitor investment operations and prescribe regulations over the authorization of administrative expenses for investment management activities; and (10) monitor investment results and maintain policies to provide retirement benefits to participants and beneficiaries in accordance with federal law.
- Test compliance with United States Code Chapter 5, Sections 8439(a)(3), 8472, 8473(a), 8474(b)(5), 8475, 8477(b), and 8477(c), and Code of Federal Regulations Title 5, Parts 2634.201 and 2638.705; and
- Determine the status of the prior EBSA TSP open recommendation reported in the *Performance Audit of Certain Thrift Savings Plan Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff, September 27, 2012*.

B. Scope and Methodology

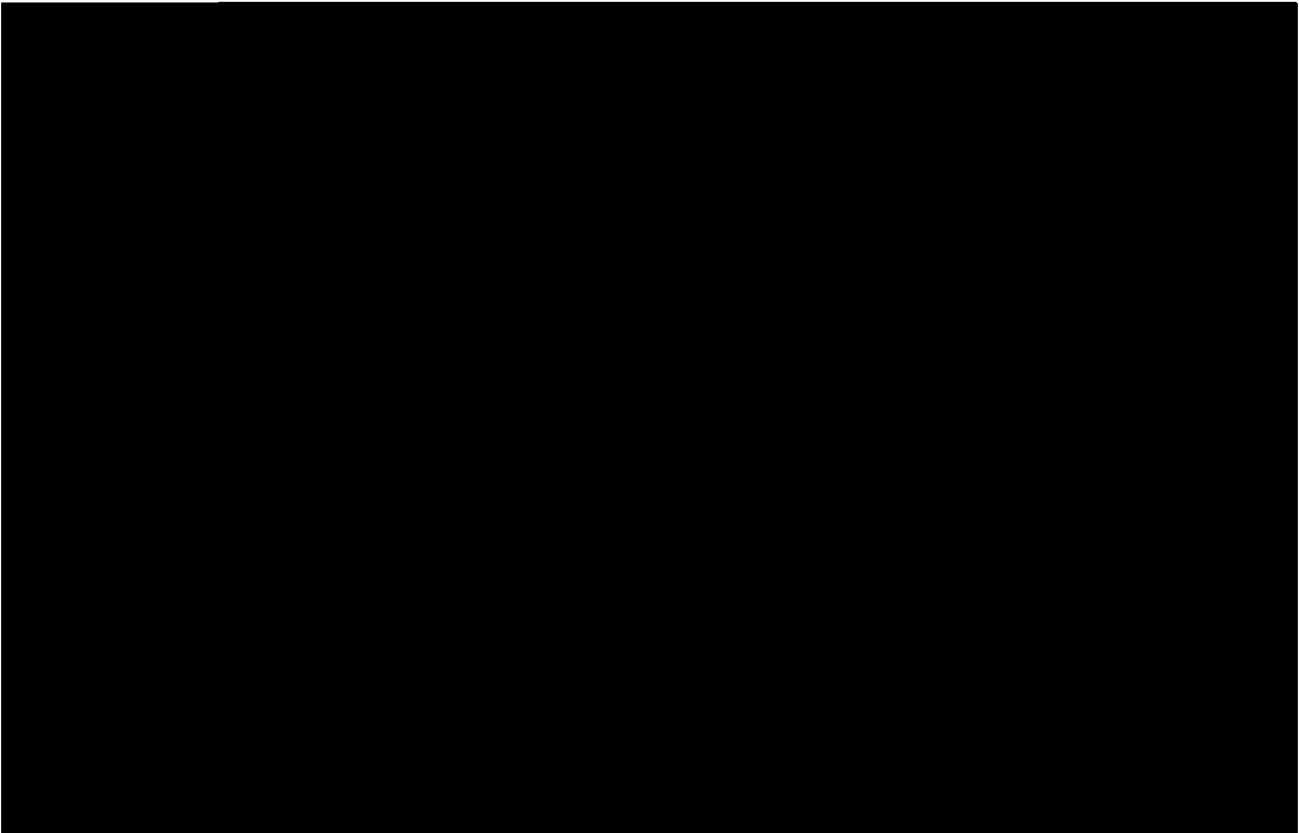
We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the American Institute of Certified Public

Accountants' *Standards for Consulting Services*, using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was January 1, 2015 through December 31, 2015. 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 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 compliance. We conducted these test procedures at the Agency's headquarters in Washington D.C. In Appendix B, we identify the key documentation provided by the Agency and contractor personnel that we reviewed during our performance audit.

Our performance audit procedures included testing 



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

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) plan administration, procurement, and investment processes while conducting a performance audit at the Federal Retirement Thrift Investment Board's (the Board) Staff (Agency) headquarters. Our scope period for testing was January 1, 2015 through December 31, 2015. 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 the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2015 through December 31, 2015, the Agency implemented certain procedures to: (1) monitor the authorization and reasonableness of administrative expenses; (2) process newly hired employees and separating employees; (3) identify risks to the entity through an internal audit division or other mechanisms; (4) procure goods and services in accordance with federal regulations; (5) maintain a code of conduct for the procurement function; (6) monitor the receipt of services; (7) accurately record investment activity in the accounting records; (8) calculate the daily value of each fund's investments based on the net yield of the investments, less authorized administrative expenses, commissions, and fees; (9) monitor investment operations and prescribe regulations over the authorization of administrative expenses for investment management activities; and (10) monitor investment results and maintain policies to provide retirement benefits to participants and beneficiaries in accordance with federal law. As a result of our compliance testing, we did not identify any instances of noncompliance with United States Code (USC) Chapter 5, Sections 8439(a)(3), 8472, 8473(a), 8474(b)(5), 8475, 8477(b), or 8477(c), or Code of Federal Regulations Title 5, Parts 2634.201 or 2638.705. However, we noted internal control deficiencies related to the Agency's TSP procurement process.

We present two new recommendations, presented in Section III.C, related to controls over the procurement process, one of which addresses fundamental controls and one of which addresses 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. Both recommendations are intended to strengthen the TSP procurement process. The Agency should review and consider these recommendations for timely implementation. The Agency's responses to these recommendations are 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 procurement 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 findings and recommendations from this performance audit. Section III.D summarizes each open recommendation.

B. Finding and Recommendation from Prior Reports

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.

2012 Board Administrative Staff Recommendation No. 2:

Title: Insufficient Justification of Sole Source Contracts and Improper Application of Federal Acquisition Regulation (FAR)

Original Recommendation: The Agency should analyze whether the resources within the Office of Financial Management– Procurement Division are adequate based on current and expected contracting demands and make any necessary resource adjustments. Additionally, the Agency should update its policies and procedures to provide guidance regarding acceptable supporting documentation for sole source acquisitions in accordance with the FAR.

Reason for Recommendation: During our 2012 audit, the Agency did not provide evidence that the Justification for Other Than Full and Open Competition Analysis had been performed prior to awarding the sole source contract for one of six contracts selected for testwork, and the Justification for Other Than Full and Open Competition Analysis was not adequately supported for the other five contracts.

Status: **Implemented.**
During our 2015 testing, we noted that the Agency restructured the organization since our last audit and created the Contracting Division within the Office of the Chief Financial Officer. It is headed by the Division Chief Contracting Officer (CO), who is supported by two Supervisory Contract Specialists, another Contracting Officer, and a group of Contracting Specialists. As part of this restructuring, the Agency analyzed its procurement resource needs and made the necessary resource adjustments.

In addition, the Agency developed and implemented the Contracting Policy, dated April 2, 2015. Based on our review, we determined that the policy provided specific guidance regarding acceptable supporting documentation for sole source acquisitions in accordance with the FAR. We tested a sample of three sole source procurements made during our scope period and determined that all contracts had adequate supporting documentation for sole source acquisitions in accordance with FAR 6.303-2(b).

Disposition: **Recommendation Closed.**

C. 2015 Findings and Recommendations

While conducting our performance audit over the TSP plan administration, procurement, and investment processes, we identified two new findings and developed related recommendations. EBSA requests appropriate and timely action for each recommendation.

RECOMMENDATION TO ADDRESS FUNDAMENTAL CONTROLS

Weaknesses in Assessing Personal Conflicts of Interest in the Procurement Process and Retaining Certificates of Procurement Officials

We selected a sample [REDACTED] that were awarded during the period of January 1, 2015 to December 31, 2015. For [REDACTED] contracts selected for testwork, an evaluator had identified a financial interest in a potential vendor on the Conflicts of Interest (COI) form; however, the Agency did not take the necessary action to address this potential conflict of interest, although code of conflict procedures existed and were documented. In addition, [REDACTED] of these contracts, the Agency did not obtain and retain certificates for the procurement officials to evidence their compliance with the requirements of Federal Acquisition Regulation (FAR) 3.104.

As a result of management oversight, the Agency did not follow procedures in place that required the performance of a documented assessment when a potential conflict of interest is identified. Additionally, the Agency did not follow procedures that required the Contracting Division to obtain and retain certificates evidencing compliance with FAR 3.104; the Agency indicated these certificates could not be located after the contracting officer who had previously retained these documents resigned.

FAR Part 3, which prescribes policies and procedures for avoiding improper business practices and personal conflicts of interest and for dealing with their apparent or actual occurrence, and the various sections within this part, states the following:

3.101-1, *General*, states:

Government business shall be conducted in a manner above reproach and, except as authorized by statute or regulation, with complete impartiality and with preferential treatment for none. Transactions relating to the expenditure of public funds require the highest degree of public trust and an impeccable standard of conduct. The general rule is to avoid strictly any conflict of interest or even the appearance of a conflict of interest in Government-contractor relationships. While many Federal laws and regulations place restrictions on the actions of Government personnel, their official conduct must, in addition, be such that they would have no reluctance to make a full public disclosure of their actions.

3.601, *Policy*, states:

- (a) Except as specified in 3.602, a contracting officer shall not knowingly award a contract to a Government employee or to a business concern or other organization owned or substantially owned or controlled by one or more Government employees. This policy is intended to avoid any conflict of interest that might arise between the employees' interests and their Government duties, and to avoid the appearance of favoritism or preferential treatment by the Government toward its employees.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (the Standards) states the following:

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. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

The Agency's *Contracting Policy*, effective April 2, 2015, states the following:

Conflicts of interest may occur at the individual or organizational level. They most frequently happen when an FRTIB employee or contractor compromises his or her judgment in performing services for the Agency due to personal, business, or financial interests. The Agency must not enter into, or continue contracts with, individuals or organizations if doing so would create an unmitigated conflict of interest or the appearance of a conflict of interest.

In addition, the Agency's *Procurement Policy, Guidelines, and Procedures Manual, Directive number 12A*, dated May 13, 1994, states the following:

...the Contracting Officer is responsible for maintaining an updated list of certified "procurement officials," obtaining certificates as necessary and appropriate, providing original certificates for Board employees to the Personnel Director, and complying with the requirements of FAR 3.104.

A procurement official [is defined as] any officer or employee of the Board who has participated personally and substantially in the conduct of a particular Board procurement, including those responsible for reviewing or approving the procurement, as further defined by the applicable regulations.

FAR 3.104-1 defines “Participating personally and substantially in a Federal agency procurement” as:

- (1) Active and significant involvement of an official in any of the following activities directly related to that procurement:
 - (i) Drafting, reviewing, or approving the specification or statement of work for the procurement.
 - (ii) Preparing or developing the solicitation.
 - (iii) Evaluating bids or proposals, or selecting a source.
 - (iv) Negotiating price or terms and conditions of the contract.
 - (v) Reviewing and approving the award of the contract.

The Memorandum to the Executive Director, *Process for Identifying Potential Conflicts of Interest in Competitive Procurements*, dated August 2, 2013, states:

... Prior to serving on or assisting as a subject matter expert to a source selection evaluation panel, FRTIB staff members must:

1. Complete or have on a file a recent OGC Form 450 or Form 278;
 2. Complete a non-disclosure agreement (NDA);
 3. Complete a Conflict of Interest form; and
 4. Complete Procurement Integrity Act (PIA) training.
-
1. **The Agency should develop, document, and implement monitoring procedures to ensure compliance with existing procurement procedures related to assessing and documenting potential conflicts of interest and retaining certificates for procurement officials.**

By not adhering to internal procedures over the procurement process, the Agency may be more susceptible to noncompliance with applicable provisions of the FAR and intentional or unintentional procurement improprieties.

RECOMMENDATION TO ADDRESS OTHER CONTROLS

Lack of Certain Formal Policies and Procedures

During our testing over the procurement process for the period of January 1, 2015 to December 31, 2015, we noted that, although our testwork did not identify any instance of improper splitting of purchases, formal procedures related to preventing this practice in order to avoid certain procedural requirements and approvals were not documented.

In addition, during our testing over the investments and plan administration processes, we noted certain policies and procedures that were not documented during our scope period of January 1, 2015 to December 1, 2015 but were subsequently implemented during 2016. Because of the subsequent implementation, these deficiencies do not require a recommendation at this time and are reported herein for informational purposes only. Specifically, prior to 2016, the Agency lacked formal policies and procedures over the following:

- Reconciliation of investment balances to the general ledger, and
- Separation of employees.

The *Accounting Policy*, effective January 31, 2016, and the *Agency Ledger Procedures*, effective April 30, 2016, documented requirements for investment balance reconciliation. These policies and procedures require a market value reconciliation be performed monthly after transactions have been posted to the general ledger. In addition, the Agency implemented the *Off-Boarding Policy*, effective January 31, 2016, which outlines specific requirements and procedures to off-board a separating employee.

The Standards 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. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

2. **The Agency should develop, document, and implement procedures related to the prevention of splitting of purchases.**

Without sufficiently documented procedures in place, the Agency may not be able to execute existing processes or properly train new employees in the event that employee turnover occurs.

D. Summary of Open Recommendations

2015 RECOMMENDATIONS

RECOMMENDATION TO ADDRESS FUNDAMENTAL CONTROLS

1. The Agency should develop, document, and implement monitoring procedures to ensure compliance with existing procurement procedures related to assessing and documenting potential conflicts of interest and retaining certificates for procurement officials.

RECOMMENDATION TO ADDRESS OTHER CONTROLS

2. The Agency should develop, document, and implement procedures related to the prevention of splitting of purchases.



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

September 22, 2016

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

Dear Ian:

This is in response to KPMG's email of September 17, 2016, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of Certain Thrift Savings Plan Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff, dated September 2016. 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,



Gregory T. Long

Enclosure

Executive Director's Staff Formal Comments on the
Employee Benefits Security Administration's Performance of the Thrift Savings Plan –
Certain Thrift Savings Plan Policies and Procedures of the Federal Retirement Thrift
Investment Board Administrative Staff

2015 RECOMMENDATIONS

RECOMMENDATION TO ADDRESS FUNDAMENTAL CONTROLS

**2015 – 1 Weaknesses in Assessing Personal Conflicts of Interest in the
Procurement Process and Retaining Certificates of Procurement Officials:**

The Agency should develop, document, and implement monitoring procedures to ensure compliance with existing procurement procedures related to assessing and documenting potential conflicts of interest and retaining certificates for procurement officials.

Response

The Agency concurs with this recommendation. Contracting Officers and Contract Specialists will use a checklist to ensure compliance with existing procurement procedures related to assessing and documenting potential conflicts of interest and retaining certificates for procurement officials. The corrective action will be taken by December 31, 2016.

RECOMMENDATION TO ADDRESS OTHER CONTROLS

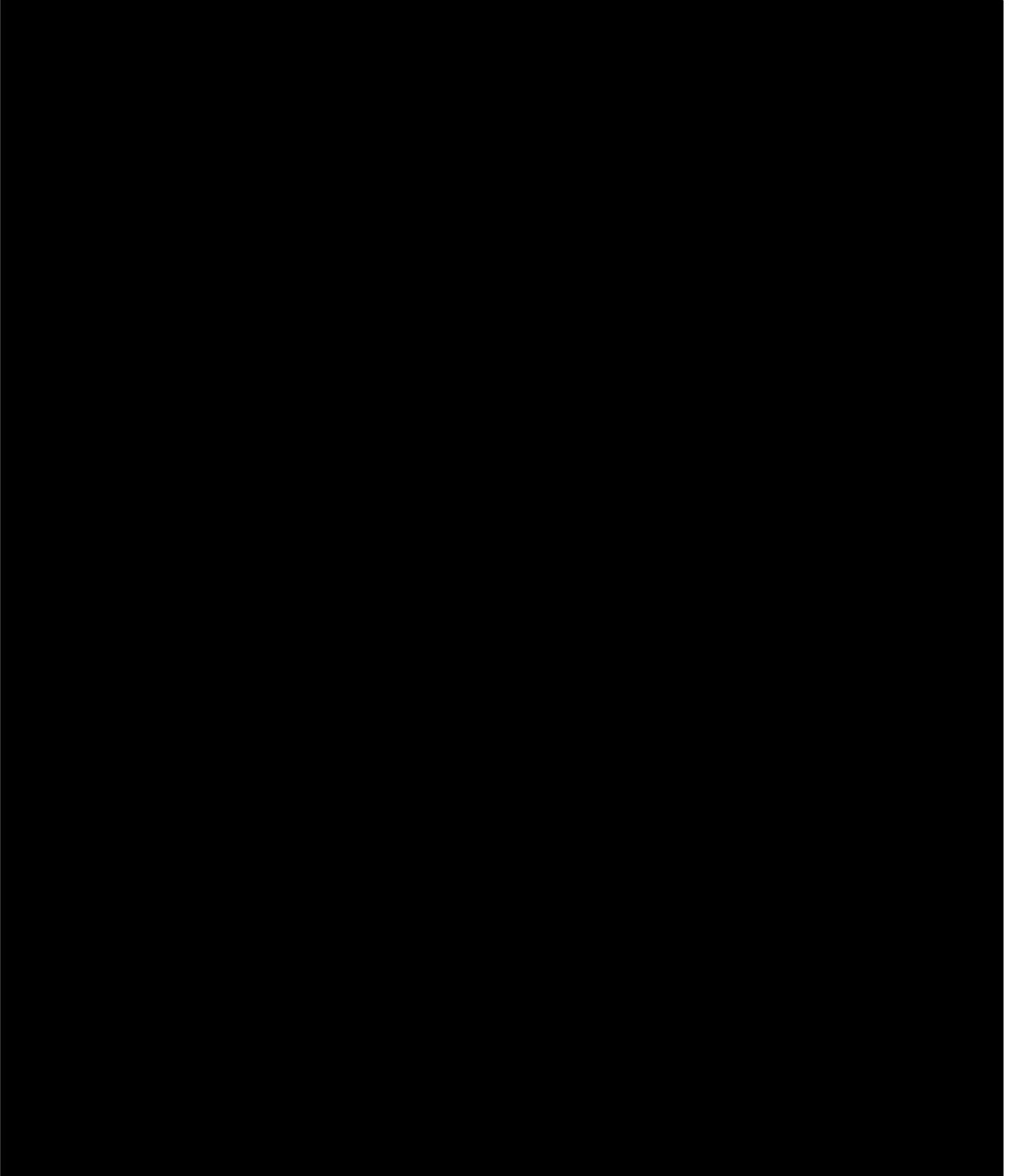
2015 – 2 Lack of Certain Formal Policies and Procedures:

The Agency should develop, document, and implement procedures related to the prevention of splitting purchases.

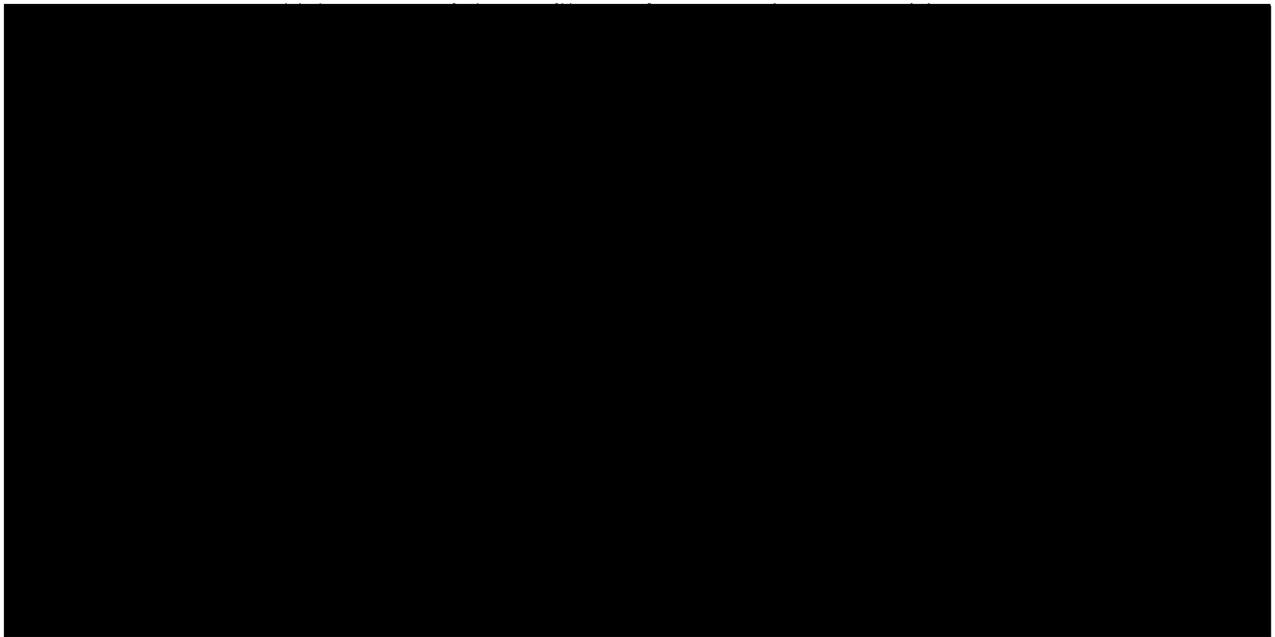
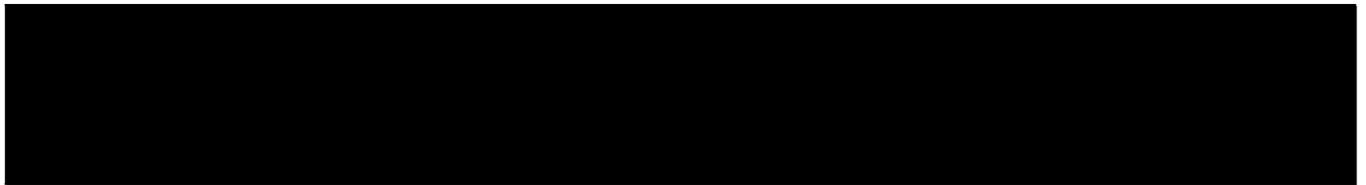
Response

The Agency concurs with this recommendation. Although the Agency Purchase Card Policy contains language pertaining to the prohibition of splitting purchases, the Agency will add the language to the Contracting Policy by November 1, 2016.

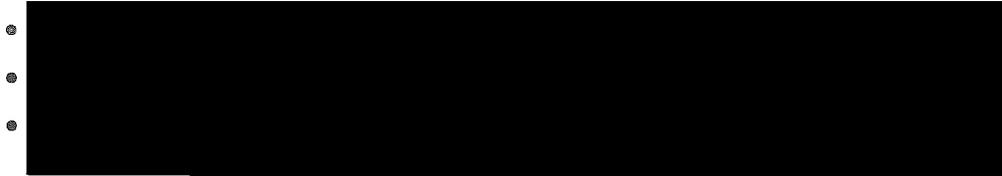
KEY DOCUMENTATION AND REPORTS REVIEWED



KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED



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 workpapers supporting its audit opinion on the TSP financial statements for the year ended December 31, 2015