



## **Employee Benefits Security Administration**

### **Performance Audit of the Thrift Savings Plan Withdrawals Process**

**January 18, 2018**

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## EXECUTIVE SUMMARY

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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) withdrawals process. Our fieldwork was performed from December 5, 2016 through September 29, 2017, primarily at the Federal Retirement Thrift Investment Board Staff's (Agency) headquarters in Washington, DC. Our scope period for testing was July 1, 2015 through December 31, 2016.

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

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

- Determine whether the Agency implemented certain procedures to (1) process TSP withdrawal transactions promptly and accurately in individual participant accounts, (2) process authorized participant payments in accordance with applicable Agency regulations, and (3) accurately record withdrawals activity in the TSP accounting records;

- Test compliance of the TSP withdrawal process in accordance with 5 USC Sections 8424(d), 8433, 8434(a)(1), and 8435 (hereinafter referred to as FERSA), and 5 CFR Sections 1650, 1651, and 1653 (hereinafter referred to as Agency Regulations); and
- Determine the status of the prior EBSA TSP open recommendations reported in *Performance Audit of the Thrift Savings Plan Withdrawals Process*, dated September 20, 2016.

We present seven new findings and recommendations related to controls over the TSP withdrawal process, four addressing fundamental controls and three 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. All recommendations are intended to strengthen the TSP withdrawal 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 results obtained, we have met our audit objectives. We conclude that for the period July 1, 2015 through December 31, 2016, the Agency implemented certain procedures to (1) process TSP withdrawal transactions promptly and accurately in individual participant accounts, (2) process authorized participant payments in accordance with applicable Agency regulations, and (3) accurately record withdrawals activity in the TSP accounting records. However, as indicated above, we noted internal control weaknesses in certain areas that could adversely affect the TSP withdrawal process. As a result of compliance testing, we did not identify any instances of noncompliance with FERSA or Agency regulations except for instances of noncompliance with certain elements of 5 USC 8435, 5 USC 8433, and 5 CFR 1650 as described in findings 2017-01, 2017-02, and 2017-06 in section III of this report.

We also reviewed three prior EBSA recommendations related to the TSP withdrawals process to determine their current status. Section III.B documents the status of these prior recommendations. In summary, two recommendations have been implemented and closed and one recommendation has been partially implemented and remains open.

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, except the following:

- Recommendation No. 2017-02: Management disagreed with the finding because they asserted marital status is not maintained by all Federal agencies and payroll offices and that policies and procedures are in place at the Agency to verify marital status at the time of disbursement. However, the current policies and procedures rely on participants' self-certifications. The recommendation will strengthen the TSP withdrawals process and help protect spousal rights. As such, we did not revise this recommendation.
- Recommendation No. 2017-03: Management disagreed with the finding and asserted the Agency's policies and procedures comply with the CFR, which requires the completed withdrawal request forms be signed by participants' spouses in the presence of a notary for certain withdrawals. However, certain states and territories require notaries to apply a seal along with their signature to evidence their presence. As such, we did not revise this recommendation.
- Recommendation No. 2017-05: Although management disagreed with the recommendation, as they believe their current training is sufficient and adequate, our testing identified an exception in our sample. As such, we did not revise this recommendation.

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

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

KPMG LLP

January 18, 2018

## **I. BACKGROUND OF THE WITHDRAWALS PROCESS**

### **A. The Thrift Savings Plan**

Public Law 99-335, the Federal Employees' Retirement Systems Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is a basic component of the Federal Employees' Retirement System (FERS) and provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions April 1, 1987, and as of December 31, 2016 had approximately \$495 billion in assets and approximately 5 million participants<sup>1</sup>.

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

### **B. TSP Withdrawal Requirements<sup>2</sup>**

#### *Eligibility to Remain in the TSP*

Upon separation from Federal Service, participants with a vested account balance of \$200 or more, have the option to leave the entire balance in the TSP or to make a withdrawal. If the participant chooses to leave the balance in the TSP, the account will continue to accrue earnings and the separated participant continues to have the ability to change how the money in the account is invested by making interfund transfers. Once separated, contributions to the account are no longer accepted and loans from the account are no longer permitted. However, the separated participant has the ability to transfer funds into the TSP from an Individual Retirement Account (IRA) (i.e., a traditional or Roth IRA) or an eligible employer plan. Once a participant reaches the age of 70 ½, there is a minimum required distribution, which will be discussed further below, if the participant has not made a withdrawal election.

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<sup>1</sup> Source: Minutes of the January 2017 Federal Retirement Thrift Investment Board Meeting, posted on [www.frtib.gov](http://www.frtib.gov)

<sup>2</sup> Source: Withdrawing Your TSP Account After Leaving Federal Service, March 2014.

## *TSP Post-Separation Withdrawals*

When participants separate from Federal service, they are eligible to withdraw their vested account balance from the TSP while non-vested amounts are forfeited to the TSP. FERS participants must work for two to three years (dependent on position held) to vest in the Agency Automatic (1%) contributions and the related earnings; however, they are always vested in their own contributions, agency matching contributions, and the related earnings. If a participant dies before leaving Federal service, the entire TSP account is vested automatically. Civil Service Retirement System (CSRS) and uniformed services participants are always vested in all the money in their accounts regardless of the source of the contributions and related earnings.

If a participant has separate civilian and uniformed service TSP accounts, the participant can make a post-separation full withdrawal only from the account associated with the participant's separation. If both accounts have separation dates, a post-separation full withdrawal can be made from each account.

If a participant separates from Federal civilian employment or the uniformed services and then is reemployed by the Federal Government with a break in service of less than 31 full calendar days, the participant is not eligible to withdraw his/her TSP account. If a participant's break in service is 31 or more full calendar days, he/she is eligible to withdraw his/her TSP account. However, the withdrawal of the account must take place while the participant is separated from service.

### Automatic Cash-out

If a participant's vested account balance is less than \$200 but more than \$4.99, the balance is automatically paid directly to the participant in a single payment. The TSP system is configured to identify accounts of participants who have been separated for at least 31 days and have a vested balance that is less than \$200 but more than \$4.99, and initiate payment to the participant. No notification is made prior to the disbursement and completion of the Form TSP-70, *Request for Full Withdrawal*, is not required. The account balance is paid automatically after the "separated" employment code is received from the participant's employing agency. The TSP will not withhold any amount for Federal income tax if the total withdrawals from the account throughout the year of the cash-out add up to less than \$200. Account balances of \$4.99 or less are forfeited to the TSP; however, participants can request a restoration and payment of the forfeited balance.

### Partial Withdrawal

Separated participants have the option of taking a one-time only withdrawal for a portion of their

TSP accounts while leaving the remainder in the TSP until a later date. However, if a participant received an age-based in-service withdrawal (during his or her active employment with the Federal government) or a partial withdrawal from a prior period of employment, the participant is not eligible for a partial withdrawal upon separation.

Participants can request a partial withdrawal by completing Form TSP-77, *Request for Partial Withdrawal When Separated*. The minimum amount that can be partially withdrawn is \$1,000; if the vested account balance is less than \$1,000, the participant must submit a request for a full withdrawal. Consistent with all withdrawals, the partial withdrawal is deducted from the participant's vested account balance proportionally from each contribution source, as applicable, (i.e., employee traditional or Roth, agency automatic 1 percent, and agency matching) and each TSP investment fund in which the participant is invested at the time of disbursement. Partial withdrawals are subject to the 20 percent tax withholding. Participants can choose to increase their amount of tax withheld but are not allowed to decrease or waive it. The participant may also be subject to an early withdrawal penalty tax of 10 percent if the participant is not at least age 59 ½ at the time of withdrawal<sup>3</sup>. The penalty tax is not withheld by the TSP but is paid by the participant, if required; at the time they file their federal tax return. Additionally, partial withdrawals are an eligible rollover distribution in which the participant may request a transfer of all or a portion of the partial payment to an IRA or other eligible employer plan (subject to Internal Revenue Service (IRS) rules) unless the participant has required minimum distribution (RMD) amounts ineligible for rollover. In order for the Agency to process the transfer request, the participant must complete the Form TSP-77 and have the form certified by the financial administrator of the plan/IRA prior to submission to the TSP. Amounts transferred to an IRA or other eligible employer plan retain their tax-deferred status.

For partial withdrawals, the TSP has spousal consent and notification requirements. For married FERS or uniformed services participants, spousal consent is required regardless of the account balance or the amount of withdrawal; the participant's spouse must sign the related section of the Form TSP-77, and the spouse's signature must be notarized prior to submission to the TSP. For married CSRS participants, the TSP must notify the spouse of the withdrawal election, regardless of the account balance or the amount of withdrawal. For FERS or uniformed services participants, two exceptions can be made to the spousal consent rule: a) the whereabouts of the spouse is unknown, or b) exceptional circumstances exist. In both cases, a Form TSP-16, *Exception to*

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<sup>3</sup> There are exceptions to the penalty tax requirements (i.e. public safety participants over age 50 are exempt from the penalty tax).

*Spousal Requirements*, must be completed. For married CSRS participants, the only exception to the spousal notification rule is if the participant does not know the whereabouts of his/her spouse, in which case a Form TSP-16 must be completed.

#### Full Withdrawal

Separated participants have the option of withdrawing their entire vested account balance. A full withdrawal is initiated via the completion of Form TSP-70, and includes four options:

1. **Single Payment** – Participants can withdraw their entire account balance in a single payment. When choosing this option, participants can opt to receive a direct payment via either check or EFT transfer or can request a transfer of all or any percentage of the single payment to an IRA or other eligible employer plan. The single payment percentage not transferred to an IRA or other eligible employer plan, is subject to the mandatory 20 percent Federal income tax withholding. Any tax deferred RMD amounts, which are ineligible for rollover, are subject to 10 percent tax withholding and cannot be transferred.
2. **Series of Monthly Payments** – Participants can withdraw their entire account balance or a percentage of their account balance in a series of monthly payments. The participant can choose one of two monthly payment options:
  - **Option 1:** Monthly payments computed by the TSP based on IRS life expectancy tables where the initial payment is based on the account balance at the time of the first payment and the participant's age. The TSP recalculates the amount of monthly payments each year based on the account balance at the end of the preceding year and the participant's age. The monthly payments are subject to Federal tax withholding that is the equivalent of the participant being married with 3 dependents with no rollover option allowed.
  - **Option 2:** Monthly payments based on a specific dollar amount that is paid to the participant until the entire vested balance has been paid. The amount of the monthly payment requested must be \$25 or more. If the payments are expected to last less than 10 years, the payments are subject to the mandatory 20 percent Federal tax withholding which cannot be decreased or waived; however, the payments can be rolled over to an IRA or other eligible employer plan. If the payments are expected to last 10 or more years, they are subject to Federal tax withholding that is the equivalent of the participant being married with 3 dependents with no rollover option allowed.

If the participant would like to make changes to his or her selected monthly payment option, the participant must submit Form TSP-73, *Change in Monthly Payments*, TSP-78, *Monthly Payments Maintenance*, or TSP-79, *Change from Monthly Payments to Final Payments* to the TSP. These forms are used to:

- Change to a final single payment (the final payment can be sent directly to the participant or the participant may elect to transfer all or a portion of the final single payment to an IRA or other eligible employer plan);
- Begin transferring eligible monthly payments or change the portion of each monthly payment that is transferred to an IRA or other eligible employer plan;
- Select a different IRA or other eligible employer plan;
- Begin direct deposit of the portion currently sent to them via check, or stop direct deposits and begin receiving checks;
- Choose a different financial institution, checking account, or savings account that is currently receiving the monthly payments; or
- Request an annual change to the dollar amount of his/her monthly payment or a one-time change during the life of the account from the IRS life expectancy payments to a specified dollar amount (a participant does not have the option to change from a specified dollar amount to IRS life expectancy payments).

The TSP must receive the request for changes to monthly payments by December 15 each year to be effective, with the first changed payment received in January of the subsequent year. A participant does not have the option to change from a specified dollar amount to IRS life expectancy payments. If a participant makes a change to his/her monthly dollar amount, the TSP must determine whether the change results in the participant receiving fewer than 120 payments. If so, the monthly payments will be categorized as eligible rollover distributions and will be treated the same way as a final single payment for federal income tax purposes. If the change results in 120 payments or more, the monthly payments will be treated as “periodic payments” and the tax withholdings will be based on IRS withholding requirements for a person who is married with three dependents. Participants can elect to change their withholding amount through Form TSP-78 or IRS Form W-4P, *Withholding Certificate for Pension or Annuity Payments*.

3. Life Annuity – Participants can withdraw their entire vested account balance to purchase a life annuity. To be eligible, the participant’s vested balance must be at least \$3,500. If participants have both a traditional and Roth balance in their TSP account, the \$3,500 minimum

requirement applies to each balance separately. The TSP purchases annuities for participants through the contracted annuity provider, which is currently Metropolitan Life Insurance Company (Metropolitan Life). The three general types of annuity options are Single Life Annuity, Joint Life with 100 Percent Survivor Annuity, and Joint Life with 50 Percent Survivor Annuity.

4. Mixed withdrawal – Participants can withdraw their entire vested account balance through a combination of any two, or all three, of the previously discussed full withdrawal options (single payment, a series of monthly payments, or a life annuity). The rules for each option as discussed above still apply in instances where a mixed withdrawal is elected (i.e. specified dollar amounts, taxes, etc.).

Participants are required to select one of the four options discussed above on their submission of Form TSP 70, which is required to be notarized prior to submission to the TSP. For married FERS, CSRS, and uniformed service participants requesting full withdrawals, including mixed withdrawals, spouses' rights requirements apply only if the account balance is more than \$3,500. If a married FERS or uniformed service participant with an account balance exceeding \$3,500 elects a full withdrawal and does not request that the entire account balance be used to purchase a joint life annuity with 50 percent survivor benefit, level payments, and no cash refund feature, the spouse must waive this right by signing the Form TSP-70, and the spousal signature must be notarized. For a married CSRS participant with an account balance exceeding \$3,500 electing a full withdrawal, the TSP must notify the participant's spouse of the withdrawal election. The spousal exceptions are the same as noted above in the Partial Withdrawal section. The participant may also be subject to an early withdrawal penalty of 10 percent if the participant is not at least age 59 ½ at the time of withdrawal.

#### Required Minimum Distributions

The Internal Revenue Code (IRC) requires that participants, who have separated from service, receive a portion of their TSP account beginning the calendar year they become age 70 ½ (first distribution year) but no later than April 1<sup>st</sup> of the year following the year the participant becomes 70 ½ (second distribution year). Thus, if the participant separates after age 70 ½, his/her account is immediately subject to the IRC minimum distribution requirements.

If a participant does not make an election to withdraw his/her account balance or begin receiving payments from his/her account before or during the first distribution year, the TSP must automatically send the required minimum distribution (RMD) to the participant by April 1 of the

second distribution year. RMD payments cannot be transferred or rolled over. The TSP system calculates the RMD based on the participant's account balance from the prior year's end balance and age using the IRS Uniform Lifetime Table. If the participant does not withdraw or begin withdrawing his/her account by April 1 of the second distribution year, his/her account will be forfeited to the TSP (although the RMD for the prior year is sent to the participant's last address of record). RMD payments are subject to 10 percent Federal tax withholding. Participants have the ability to reclaim any amounts forfeited by using Form TSP-70A, *Late Request for Full Withdrawal*.

#### *Death Benefits<sup>4</sup>*

Designation of a beneficiary or beneficiaries can be made by the participant on the Form TSP-3, *Designation of Beneficiary*, and is valid only for the TSP account listed on the form. The TSP maintains the most recent Form TSP-3 for all participants. The Form TSP-3 is not effective unless it is on file with the TSP on or before the date of the participant's death. A will or other agreement is not valid for the disposition of a participant's TSP account.

If a participant has no Form TSP-3 on file, death benefits must be paid in the following statutory order:

- Widow or widower;
- Child or children equally of the deceased and to descendants of deceased children by representation;
- Parents equally or surviving parent;
- Executor or administrator of the estate; or
- Next of kin who is entitled to participant's estate under the laws of the state in which the participant resided at the time of his/her death.

If the participant dies after separating from service or is the account holder of a beneficiary participant account, a next of kin, legal representative, or other responsible person must report the participant's death to the TSP by completing and submitting Form TSP-17, *Information Relating to Deceased Participant*, and a copy of the certified death certificate to the TSP before the TSP will process the death benefit payment. If a TSP participant dies while still in Federal service, the participant's personnel or payroll office must report the participant's death to the TSP. The Form

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<sup>4</sup> Source: Thrift Savings Plan Death Benefits, August 2014 (Bulletin 14-U-3).

TSP-17 and a copy of the certified death certificate must also be submitted to the TSP before the TSP will begin processing the death benefit payment.

Once a TSP-17 and certified death certificate have been received, if there was a Designation of Beneficiary (Form TSP-3) on file with the TSP as of the date of the participant's death, the TSP account will be distributed according to that designation. Otherwise, the participant's account will be paid according to the order of precedence required by law as discussed above.

The TSP establishes beneficiary participant accounts (BPAs) for the spouses of deceased participants who are determined to be the beneficiary. If a spouse's share of death benefits is \$200 or more, the TSP establishes and maintains a beneficiary participant account for the spouse. The entire share is invested in to an age-appropriate Lifecycle (L) Fund until the spouse elects a different investment option or chooses to withdraw the money as a full withdrawal through either a single payment, monthly payments, annuity, or a combination of these options.

Spouse beneficiaries have the option to leave their money with the TSP in their established BPA or can withdraw they money from their account by completing and submitting the Form TSP-90, *Withdrawal Request for Beneficiary Participants*. The rules and requirements related to BPAs (i.e. post separation withdrawals and RMDs) are consistent with the rules and requirements related to TSP participants as described above; however, withdrawals from BPA accounts are subject to a 10 percent tax withholding. If the spouse's share is less than \$200, the TSP sends a check for the payment.

Non-spouse beneficiaries are unable to retain a TSP account. The death benefit payment will either be made directly to the beneficiary, to an "inherited" IRA, or can be transferred to the employees own TSP account if they are a current or former Federal Governmental employee with a TSP account. Upon the determination that a beneficiary for a death benefit is a non-spouse, a skeletal account is created for the individual. Non-spouse beneficiaries have 90 days from the date the skeletal account was established to submit either the Form TSP-81, *Death Benefit Election for a Non-Spouse Beneficiary* or a tax notice to the TSP. Payments to non-spouse beneficiaries are subject to a 20 percent tax withholding.

## *Court Orders*<sup>5</sup>

The TSP must honor a valid court order that awards all or part of a participant's (in-service or separated participant or beneficiary participant) vested TSP account balance to a party with a legal interest. The TSP must honor court orders related to divorce, annulment, legal separation, or garnishment to satisfy a participant's past-due alimony or child support obligations. The TSP must also honor all qualifying Federal tax levies as well as qualifying criminal restitution orders pursuant to the Mandatory Victims Restitution Act (MVRA).

The TSP makes only one disbursement per payee under a court order or legal process; the TSP does not make a series of payments even if the participant's account balance is insufficient at the time of payment for the TSP to satisfy the payee's entire entitlement. However, the TSP will honor a second court order. The TSP does not make a series of payments because it is not considered a qualifying legal process under FERSA. A court order cannot require the TSP to pay more than the participant's vested account balance. Therefore, if the payee's entitlement exceeds the participant's vested account balance when the TSP pays the award, the TSP will only pay up to the vested account balance as of the date of disbursement. All payments are made pro rata from all TSP investments in which the participant is invested based on the balance in each fund on the date payment is made and from all contribution sources. If a participant has more than one type of TSP account (i.e. civilian, uniformed services, and beneficiary participant) the court order must explicitly identify each account separately and the payees entitlement to the related account(s). A skeletal account is established for all payees specified in the court order. The court order entitlement is transferred to and disbursed from the payee skeletal account.

## *TSP In-Service Withdrawals*

FERSA permits a non-separated participant to withdraw employee contributions and attributable earnings from his or her TSP account due to financial hardship or based on age.

An in-service withdrawal is a means of providing participants (under limited circumstances) access to funds in their TSP accounts while they are employed by the Federal Government. This includes participants who are in a non-pay status. While outstanding TSP loans<sup>6</sup> delay a partial or full post separation withdrawal until the loan is repaid in full or treated as a taxable distribution, in-service

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<sup>5</sup> Source: Court Orders and Powers of Attorney, September 2014.

<sup>6</sup> TSP Loans are covered under a separate performance audit.

withdrawals are not affected by an outstanding TSP loan. See below for additional details on the in-service withdrawals.

### Age-Based In-Service Withdrawals

Age-based in-service withdrawals allow participants who are age 59 ½ or older and active (i.e. still employed by the Federal government) to request a one-time withdrawal of all or a portion of their vested account balances. To request an age-based in-service withdrawal, participants must complete the Form TSP-75, *Age-Based In-Service Withdrawal Request*. Participants must request at least \$1,000 or their entire vested account balance if their account balance is less than \$1,000. The withdrawal is deducted from the participants' accounts proportionally from each contribution source and investment fund in which the participants is invested at the time of disbursement. Participants can only receive one age-based in-service withdrawal from an account. If the participant has two separate TSP accounts (one as a Federal civilian employee and one as a member of the uniformed services), the participant can make an age-based in-service withdrawal only from the account associated with the participant's current employment. If both participant accounts are active, an age-based in-service withdrawal can be made from each account.

Participants who make an age-based in-service withdrawal cannot subsequently receive a post-separation partial withdrawal. The in-service withdrawal cannot be repaid to the TSP and is subject to the 20 percent Federal withholding tax. Participants can choose to increase their tax withholding but are not allowed to decrease or waive it. In-service withdrawals are also an eligible rollover distribution; thus, the participant can transfer all or a portion of the withdrawal to an IRA or other eligible employer plan.

As previously noted with post-separation withdrawals, the TSP has spousal consent and notification requirements for in-service withdrawals as well. For married FERS or uniformed services participants, the spouse must consent to the withdrawal in the section noted on the Form TSP-75, and the spouse's signature must be notarized. If the spouse's whereabouts are unknown or exceptional circumstances exist in which a participant is unable to obtain spousal consent, the participant must complete Form TSP-16 and provide the required documentation. For married CSRS participants, the TSP must notify the participant's spouse before the in-service withdrawal is made. The only exception to this requirement is if the participant does not know the whereabouts of his/her spouse, in which case completion of Form TSP-16 is necessary.

Additionally, for those participants requesting a transfer of their age-based in-service withdrawal

to an eligible employer plan or an IRA, the Form TSP-75 must be completed by the financial administrator of the plan or IRA and mailed to the TSP.

#### Financial Hardship In-Service Withdrawal

Financial hardship in-service withdrawals allow participants, regardless of age, who have a financial need to make a withdrawal of their own contributions and the earnings on their contributions, including any amounts transferred into the TSP account from an IRA or eligible employer plan, up to the financial need. Financial hardship withdrawals must be for an amount \$1,000 or greater. To request a financial hardship in-service withdrawal participants must complete Form TSP-76, *Financial Hardship In-Service Withdrawal Request*.

To be eligible for a financial hardship withdrawal, participants must have a financial need that results from at least one of the following four conditions: negative monthly cash flow, eligible medical expenses (including household improvements needed for medical care), eligible personal casualty losses, or eligible legal expenses for separation or divorce from a spouse. Income information or documentation to substantiate the financial hardship is not required to be submitted. However, participants must certify on their withdrawal requests, under penalty of perjury, that they have a genuine financial hardship based on conditions described on the form.

There is no limit to the number of financial hardship in-service withdrawals that a participant can make; however, they are limited to one financial hardship withdrawal every six months. After a financial hardship withdrawal disbursement has been made, participants cannot make contributions to the TSP<sup>7</sup> for six months. However, while FERS employees do not receive any agency match contributions during this six-month period, those FERS employees in pay status do continue to receive their agency automatic one percent contributions. The suspension period begins on the date the funds are disbursed and ends after a period of six months. The TSP sends notifications to the participant and the participants employing agency related to the start and end of the suspension period; however, contributions will not resume automatically. At the conclusion of the six-month period, the participant must request the employing agency to resume contributions by submitting Form TSP-1, *Election Form*, along with a copy of the notice that the participant received from the TSP.

Financial hardship in-service withdrawals are deducted proportionally from each investment fund

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<sup>7</sup> The six month period relates to a contribution suspension period which is waived for participants impacted by certain natural disasters such as Hurricane Matthew and the Louisiana Flooding which occurred during our scope period.

according to the employee contributions in that investment fund at the time of disbursement. If a participant has two separate TSP accounts (e.g., Federal civilian and uniformed services), a financial hardship withdrawal can only be made from the account associated with current employment. If both accounts are associated with the participant's current employment, a financial hardship withdrawal can be made from both accounts. The IRS considers financial hardship withdrawals to be a non-periodic payment for Federal income tax purposes; thus, the TSP withholds 10 percent of the withdrawal. Participants can choose to increase their tax withholding but are not allowed to decrease or waive it. The participant may also be subject to an early withdrawal penalty tax of 10 percent if the participant is not age 59 ½ at the time of withdrawal.

For married FERS and uniformed services participants, spousal consent (with notarized signature) is required. For married CSRS participants, spousal notification is required. The same spousal requirement exceptions apply as previously indicated for age-based in-service withdrawals.

### **C. TSP Withdrawals Process**

#### Paper Withdrawal Requests

Withdrawal processing for paper forms begins in the service providers' facilities either in Birmingham, AL or Fair Oaks, VA where the mailroom receives withdrawal forms submitted by participants via mail or fax. Withdrawal forms for death benefits to non-spouse beneficiaries and court orders are processed in Fair Oaks, VA while all other withdrawal forms are processed in Birmingham, AL. All forms received via mail are stamped with the date received. Once date stamped, all forms are scanned into the TSP system and are linked to the relevant participant's account. In the TSP system, optical character recognition (OCR) is run on each form and various edit checks are performed on the form based on the form type. During indexing, the TSP imaging system performs edit checks on the participant's name and account ID to verify they match a valid account in the TSP system and ensure that a duplicate form is not already in process. All information from the form that could not be read during OCR (e.g. existence of notary signature, unreadable characters) is manually updated within the TSP system by an Analyst. As information is updated in the system through this process, the edit checks are automatically re-running within the system. If the forms are found to contain errors via the edit checks performed, an error message is displayed within the system. All forms and records within the system are manually reviewed to verify that the information from the form is accurately reflected in the system. Based on the errors identified, the form is either rejected or accepted. If the system rejects a form, a reject notice is generated and mailed to the participants. Forms that are determined to be free of errors and that have successfully completed the manual review process are placed in queue to be transmitted to

the TSP system during the nightly unified processing cycle. During the nightly unified processing cycle, additional edit checks are performed to verify the requirements for each type of withdrawal are met. Once the form passes the second set of edit checks, a notification is generated and mailed to the participant that the withdrawal request has been processed. However, if the form does not pass the second set of edits checks, a reject notice is generated and mailed to the participant.

### Online Withdrawal Requests

Participants who are unmarried and who are requesting an in-service withdrawal have the option of completing the withdrawal form via the TSP website. The website interface has built in edit checks that prevent participants who do not meet the criteria from having the ability to complete and submit withdrawal forms online. Additionally, there are edit checks related to the information that is entered into the online form by the participants. All withdrawal forms submitted successfully via the TSP website are sent to the TSP system of record via the nightly unified processing cycle. A copy of the completed withdrawal form from the website interface is automatically copied to the TSP system for record retention.

### Withdrawal Disbursement and Reporting

If a post-separation withdrawal form is submitted to the TSP and scanned, indexed, and data-entered into the TSP imaging system, but the separation information has not been received from the Federal agency or uniformed service (e.g., employment code and date indicating separation), the TSP imaging system automatically holds the form in a suspense file for 30 days pending receipt of the separation information. If the separation information is not received within the 30 days, the form is rejected, and a reject notice is sent to the participant, who must contact his/her agency or service to follow-up. If the separation information is received within the 30 days and no errors are identified on the form, the withdrawal is processed.

Upon the completion of the nightly unified processing cycle, all withdrawal transactions that successfully completed the second set of edit checks discussed above are automatically transferred to the payment module within the TSP system. The Agency's Office of the Chief Financial Officer (OCFO), is responsible for reconciling withdrawal activity and for recording the related journal entries in the general ledger. On a daily basis, an accountant within OCFO reconciles the activity within the TSP system to the activity in the payment module of the TSP system. Once reconciled, the disbursement information from the payment module is used to produce the SF-1166, *Voucher and Schedule of Payments*. The SF-1166 is submitted daily to the U.S. Department of the Treasury (Treasury). Key data elements passed to Treasury include the payee's name, address, and social security number; amount of disbursement; type of disbursement; and form of disbursement (e.g.,

check or electronic funds transfer (EFT)). Upon receipt, Treasury will edit the file and email the Agency a report of the total disbursements for certification. An accountant reconciles the number and dollar value of transactions in the report sent from Treasury to verify the accuracy. Once the accuracy is confirmed, the accountant will enter the data in the Treasury Secure Payment System (SPS). Once the data is entered, an accountant, with the certifying officer role in SPS, will review the disbursement files and then certify the withdrawals for payment by Treasury. Upon certification, Treasury releases the batch of disbursements for processing. Treasury typically processes disbursements within one to five business days of having received the complete disbursement information from the TSP. If the disbursement are be made by check, Treasury usually needs additional time for disbursement.

After Treasury disburses funds, Treasury sends payment confirmation information to the Agency. The OCFO's Accounting Division uses financial reports generated by the TSP system, to prepare general ledger entries for withdrawal activity.

On a daily basis, an accountant will generate withdrawals disbursement reports from the TSP system, which is used to input numbers into a journal entry template for posting to the general ledger. Once the template is completed and a provisional (preliminary) posting is created within the general ledger, the entry is reviewed by an accountant and then posted to the general ledger. After posting, the accountant will check the batch reports and the trial balance to ensure the entry was successfully posted. The documents are placed in a reconciliation package which is reviewed and signed by the supervisory accountant.

#### Additional Information on the TSP Court Order Withdrawals Process

A TSP account can be divided by means of a court decree of divorce, annulment, or legal separation or a court order or court-approved property settlement agreement incident to such a decree. A court order can be used to prevent a participant from withdrawing his/her TSP account during a divorce action. To qualify, a court order for the TSP must meet the requirements set forth in 5 USC 8435 (c) and 8467 and 5 CFR 1653.2. As soon as practicable after receiving a court order that is issued in an action for divorce, annulment, or legal separation, the TSP "freezes" a participant's account if the court order names the TSP and provides that the participant may not obtain a TSP loan or withdrawal or the court order purports to divide a participant's TSP account. Once an account is frozen, no new loans or withdrawals are permitted from the account until the action is resolved.

A TSP account can be garnished with a writ, order, summons, or other similar document in the

nature of a garnishment that is brought to enforce a participant's child support or alimony obligation. The TSP calls such a document a "legal process." To be honored by the TSP, a legal process must meet the requirements set forth in 5 USC 8437(e)(3) and 5 CFR 1653. As soon as practicable after receiving a legal process, the TSP freezes a participant's account if the legal process expressly names the "Thrift Savings Plan" and requires the TSP to make a payment to satisfy a child support or alimony debt, or withhold a portion of the participant's account in anticipation of an order to make such a payment.

The TSP processes court orders and legal processes using the following steps:

- As soon as possible after the TSP receives a document that purports to be a qualifying court order or legal process, the participant's account is frozen.
- The TSP evaluates whether the court order or legal process is complete. If the court order or legal process is not complete, the TSP requests that the parties submit a complete copy. If a complete copy is not received within 30 days of the date of notification, the participant's account is unfrozen, and no further action based on that court order or legal process is taken.
- When the TSP receives a complete court order or legal process, the TSP freezes (or maintains the freeze on) the participant's account and evaluates the court order or legal document to determine whether it qualifies. For qualifying court orders, the TSP also determines how the account should be divided.
- The TSP mails a decision letter to the participant and provides a copy to all the other parties having a legal interest in the action. The decision letter describes the effect the order or legal process will have on the participant's account and states when the freeze will be removed from the account. If the court order or legal process is not qualifying, the decision letter explains why. If the order or process requires a payment, the letter also explains how the payment amount will be calculated and when the payment will be made.

TSP payments are made by a Treasury check directly to the payee or by direct deposit via EFT to the payee's financial institution. All or part of a payment to a current or former spouse under a court order or a legal process may be transferred to a traditional IRA or an eligible employer plan, with the exception of court-ordered payments made from beneficiary participant accounts. The TSP will generally disburse a payment 60 days after it issues the decision letter that describes the effect the court order or legal process will have on the participant's account. In certain situations, the payee can request to receive payment sooner; however, the TSP does not make, in any case, payments earlier than 31 days after the date of the TSP decision letter.

### Additional Information on the Required Minimum Distributions Process

As previously discussed, the IRC requires that participants receive a portion of their TSP account beginning the calendar year the participant becomes age 70 ½ and is separated from service (i.e., the first distribution year). If the participant does not withdraw his/her account balance or begin receiving payments from his/her account, the TSP is required to make a distribution to the participant by April 1 of the following year (i.e., the second distribution year). The TSP sends out a leaflet every fall to all participants turning 70 ½ (both active and separated) in the subsequent calendar year, notifying them of the withdrawal deadline and the RMD.

For participants who make a withdrawal election in their first distribution year, their first year RMD is applied based on their withdrawal elections. If the participant elects monthly payments, subsequent RMDs may be satisfied either by the payments or through a supplemental payment made in December of each year. (See explanation below.)

For those participants who have not made a withdrawal election for their first RMD year, a notice is sent to them in the following January indicating that they must make a withdrawal election prior to March 1 of the second distribution year. The notice also tells these participants that they must be paid their first year RMD no later than April 1 of the same year. The TSP pays the first year RMDs in March if no election is received.

If the participants have not made a withdrawal election by March 1 of the second distribution year, the first year RMD payment is automatically sent to the participants (according to their address of record) on March 1. In addition, another notice is sent to them notifying them of the RMD payment, and indicating that any part of their TSP account that is not already invested in the G Fund will be transferred to the G Fund on April 1, and the account will be declared abandoned and forfeited to the TSP by mid-August. On April 1, the funds in the participants' accounts that are not already in the G Fund are automatically moved to the G Fund.

For those participants who do not make a withdrawal election by the abandonment deadline, the account is declared abandoned and the balance is forfeited to the TSP mid to late August. A notice is sent to the participants notifying them of the abandonment and forfeiture. The notice also indicates that they can reclaim their account by submitting a withdrawal election through the Form TSP-70-A. This form is included with the notice. Participants do not receive earnings on the funds from the date of forfeiture to the date of restoration.

Each January, the TSP recalculates the monthly payments for those participants who have

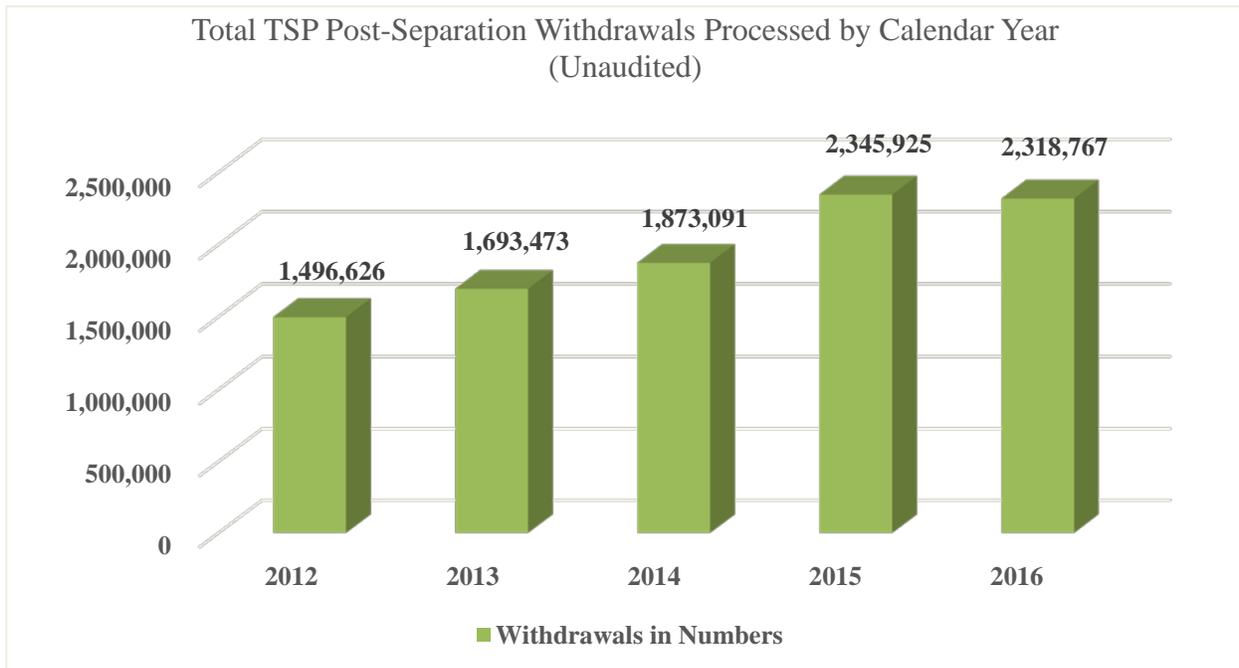
elected withdrawal payments based on life expectancy. Participants are sent a notice containing the new payment amount, and if they are due an RMD, the notice also indicates the RMD amount. The payments (as is the RMD) are based on the participants' prior year-end balance and their life expectancy factor. Supplemental RMDs are issued in December if necessary (e.g., if the monthly payments based on life expectancy started in June and the total of the monthly payments that year does not satisfy the RMD).

Any other elected withdrawals received by the participant during the year (e.g., partial, full, or mixed withdrawals) are used to satisfy the RMD amount. Therefore, the actual RMD payment amount is based on the additional amount that is needed to be withdrawn beyond the withdrawals made by the participant's election method. This additional payment to meet the RMD is made in the December of each year.

**D. TSP Withdrawal Statistics**

Exhibit II-1 illustrates the total TSP post-separation withdrawals disbursed in dollars, including death benefit disbursements and court order disbursements,<sup>8</sup> for calendar years 2012 through 2016. Exhibit II-2 illustrates the number of TSP post-separation withdrawals disbursed for calendar years 2012 through 2016.

*Exhibit II-1*



<sup>8</sup> Court order disbursements include disbursements made from the accounts of participants who are still in-service.

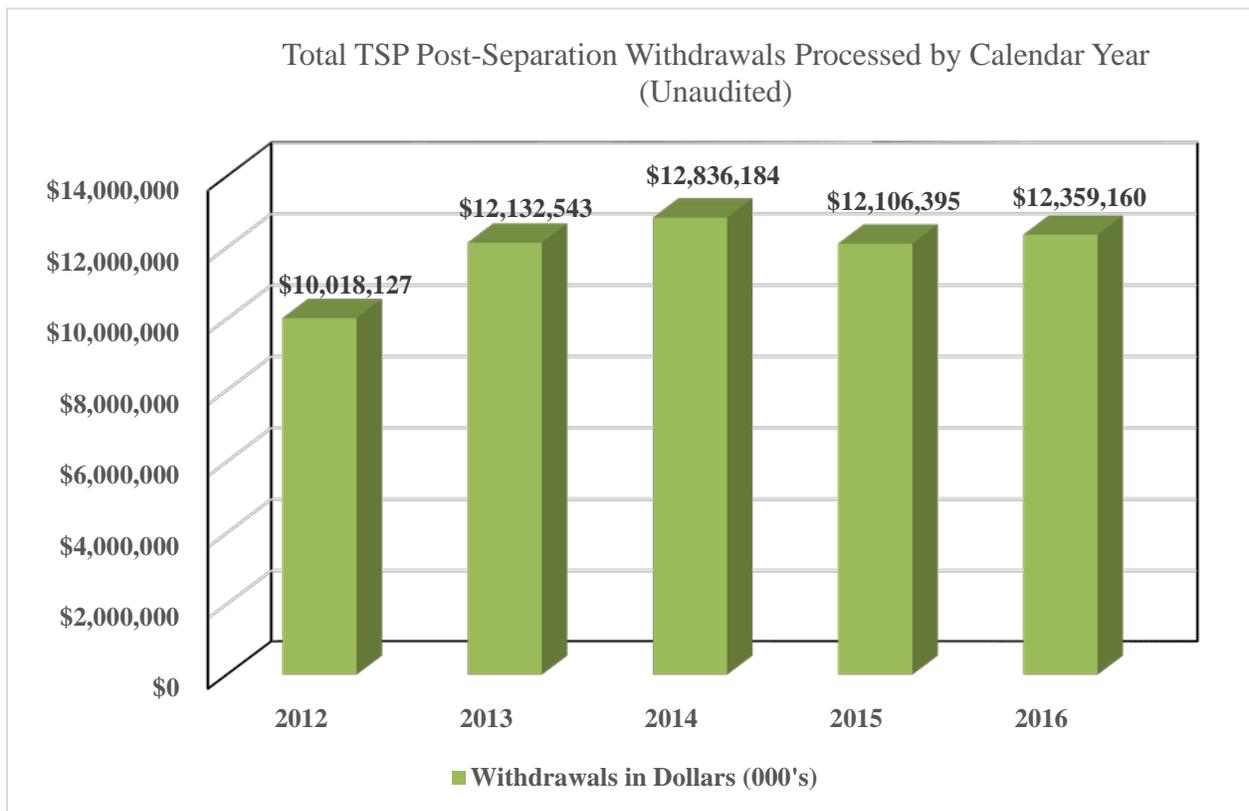
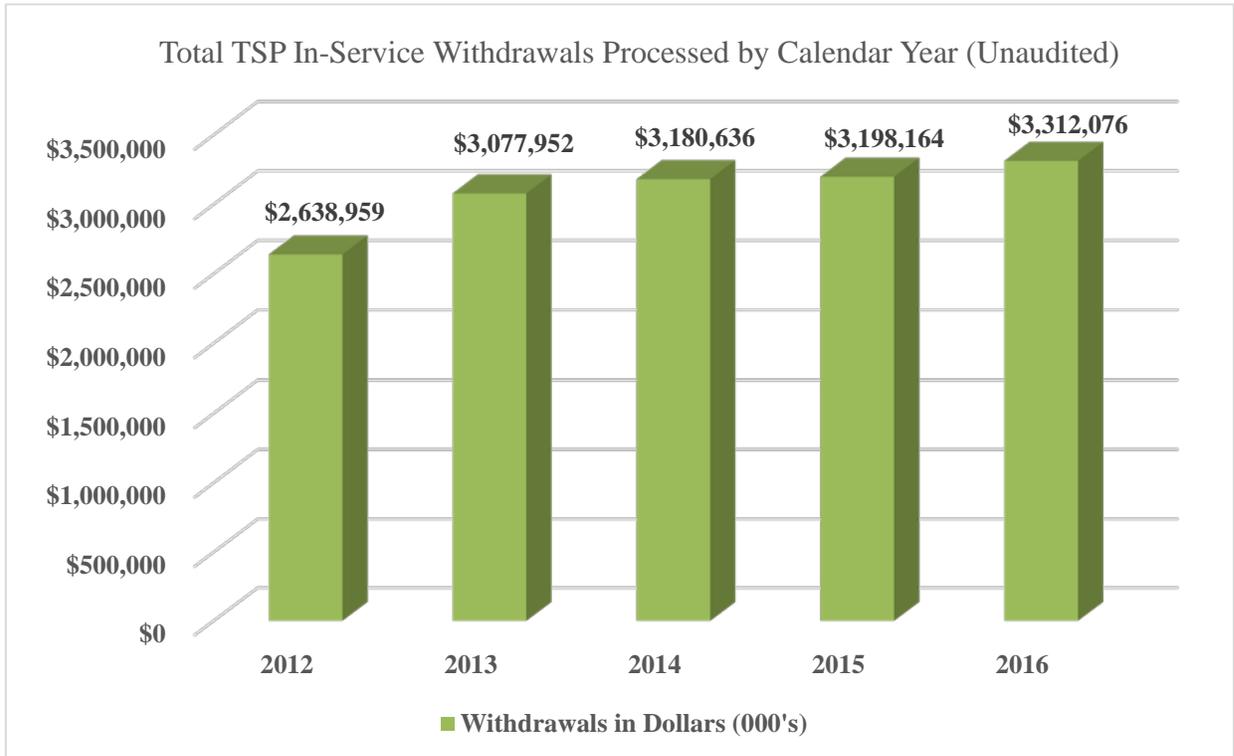


Exhibit II-3 illustrates in-service withdrawals disbursed, in dollars, for calendar years 2012 through 2016. Exhibit II-4 illustrates the number of in-service withdrawals disbursed for calendar years 2012 through 2016.

*Exhibit II-3*



*Exhibit II-4*

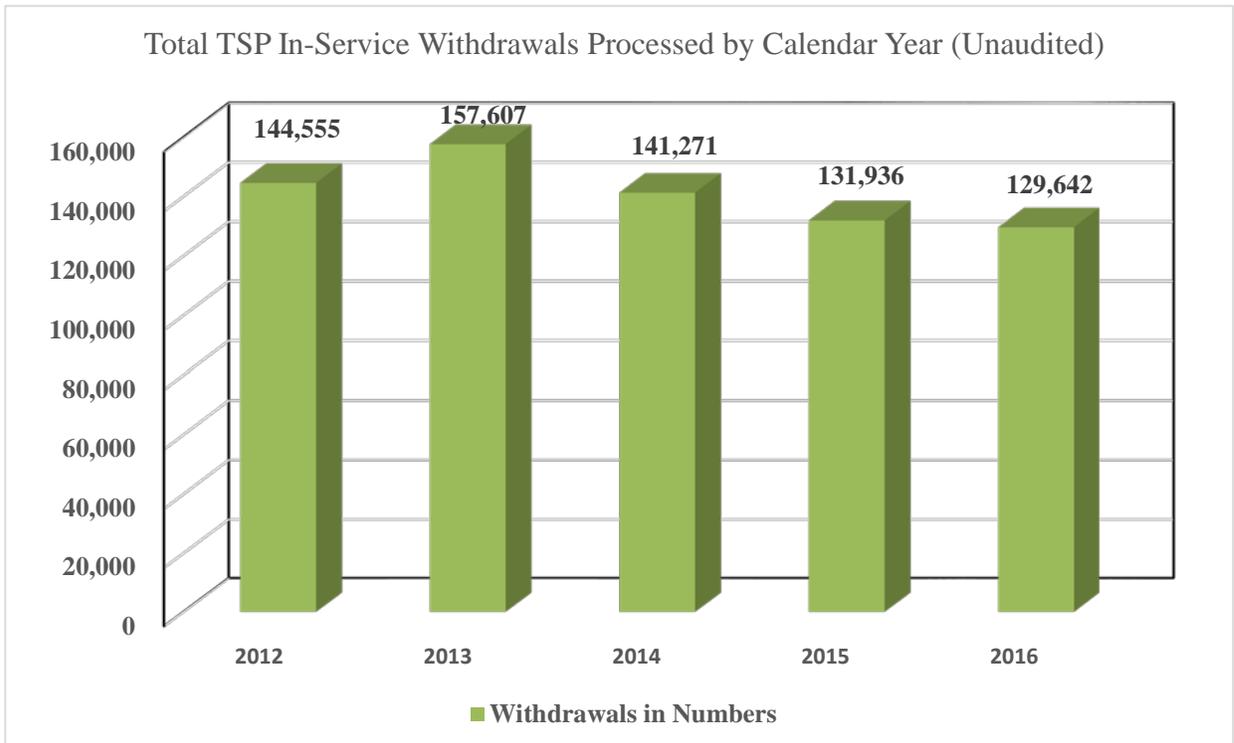
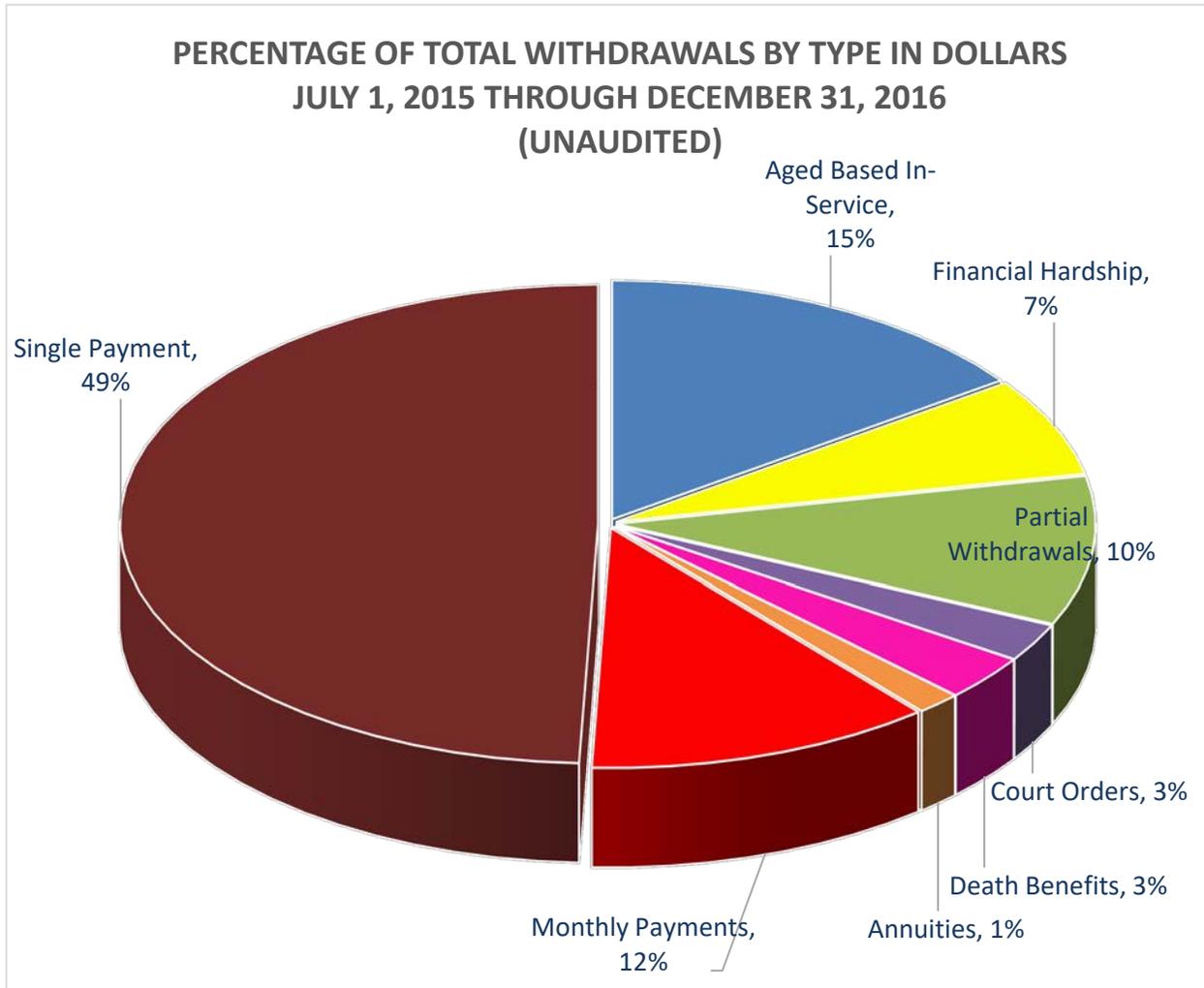


Exhibit II-5 illustrates the percentages of total withdrawal disbursements, by type, including both post-separation and in-service, from July 1, 2015 through December 31, 2016.

*Exhibit II-5*



## II. OBJECTIVE, SCOPE, AND METHODOLOGY

### A. Objective

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) withdrawals process.

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

- Determine whether the Federal Retirement Thrift Investment Board's Staff (Agency) implemented certain procedures to (1) process TSP withdrawal transactions promptly and accurately in individual participant accounts, (2) process authorized participant payments in accordance with applicable Agency regulations, and (3) accurately record withdrawals activity in the TSP accounting records;
- Test compliance of the TSP withdrawal process in accordance with United States Code (USC) Title 5, Sections 8424(d), 8433, 8434(a)(1), 8435, and Code of Federal Regulations (CFR) Title 5, Sections 1650, 1651, and 1653; and
- Determine the status of the prior year EBSA TSP open recommendations reported in *Performance Audit of the Thrift Savings Plan Withdrawals Process*, dated September 20, 2016.

### B. Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the American Institute of Certified Public Accountants' *Standards for Consulting Services*, using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was July 1, 2015 through December 31, 2016. 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 in developing a collective understanding of the activities and controls associated with the applications, processes, and personnel involved with 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<sup>9</sup>. We conducted these test procedures at the Agency's headquarters in Washington, D.C. In Appendix B, we identify the key documentation provided by Agency personnel that we reviewed during our performance audit.

Our performance audit procedures included testing a statistical sample using random attribute sampling to select specific TSP withdrawal transactions, which we used to determine if the Agency processed withdrawal transactions in a manner that complied with FERSA. We performed procedures over the following:

- Post-separation withdrawals, to determine if (1) post-separation withdrawals were processed promptly, (2) all necessary documentation, per type of withdrawal (e.g., automatic cash-out, partial withdrawal, single payment, monthly payment, and annuity) was accurately completed before a withdrawal was processed, and (3) the withdrawal amount was accurate and distributed to the proper payee;
- Changes to monthly payments, to determine if (1) all necessary documentation, was accurately completed before the withdrawal was processed and (2) the withdrawal amount was accurate and distributed to the proper payee;
- Court orders and death benefit payments, to determine if (1) court order and death benefit payments were processed promptly, (2) all necessary documentation was accurately completed before a withdrawal was made, and (3) the withdrawal amount was accurate and distributed to the proper payee;
- In-service withdrawals, to determine if (1) in-service withdrawals were processed promptly, (2) all necessary documentation, per type of in-service withdrawal (e.g., age-based or financial hardship) was accurately completed before an in-service withdrawal was processed, and (3) the in-service withdrawal amount was accurate and distributed to the proper payee;
- Returned withdrawal checks/electronic funds transfers (EFTs), to determine if withdrawal checks and EFTs returned to the TSP were investigated and reissued in a timely manner;

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<sup>9</sup> We obtained and utilized certain information technology system settings related to the withdrawals process subsequent to the scope period and in a test environment due to timing and availability. While we could not validate independently that the imaging system edit check controls tested were in place during the entire audit period, the Agency represented that such edit checks and settings were functionally and technically the same as those designed and operating in production environment from July 1, 2015 through December 31, 2016.

- Abandoned accounts, to determine if (1) the appropriate notices were sent to the participant in a timely manner prior to the account being abandoned, and (2) funds from abandoned accounts were only invested in the TSP's Government Securities Investment Fund (G Fund);
- Participants age 70½ or older in calendar years 2014 and 2015, to determine if (1) RMDs were processed timely for selected participants who had met age limit and employment status requirements, (2) RMDs were accurately calculated, and (3) participant accounts, as appropriate, were properly abandoned and forfeited;
- Participants age 70½ or older in calendar year 2016, to determine if the appropriate participants were properly notified in a timely manner of the requirements to begin withdrawing their TSP account balance; and
- Spousal beneficiary participant accounts, to determine if accounts were established timely and for appropriate individuals.

We excluded from this audit the consideration of the TSP annuity-related procedures performed at the annuity vendor subsequent to the participant choosing an annuity as a withdrawal option. These procedures are addressed separately within the overall EBSA *Thrift Savings Plan Fiduciary Oversight Program*.

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

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

### **III. FINDINGS AND RECOMMENDATIONS**

#### **A. Introduction**

We performed procedures related to the Thrift Savings Plan (TSP) withdrawals process while conducting a performance audit at the Federal Retirement Thrift Investment Board's (Board) Staff (Agency) headquarters. Our scope period for testing was July 1, 2015 through December 31, 2016. 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 that for the period July 1, 2015 through December 31, 2016, the Agency implemented certain procedures to (1) process TSP withdrawal transactions promptly and accurately in individual participant accounts, (2) process withdrawal and death benefit payments in accordance with regulations and participant authorization, and (3) accurately record withdrawal activity in the TSP accounting records. However, we noted internal control weaknesses in certain areas that could adversely affect the TSP withdrawal process.

As a result of compliance testing, we did not identify any instances of noncompliance with United States Code (USC) Chapter 5, Sections 8424(d), 8434(a)(1), and 8440 or Code of Federal Regulations (CFR), Title 5, Parts 1653, and 1651.19; however, we did identify instances of noncompliance with certain elements of 5 USC 8435, 5 USC 8433, and 5 CFR 1650 as described in findings 2017-01, 2017-02, and 2017-06 below.

We present seven new findings and recommendations, presented in Section III.C, related to the TSP withdrawals process; four addressing fundamental controls and three 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. These recommendations are intended to strengthen the TSP withdrawals 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 three prior U.S. Department of Labor Employee Benefits Security Administration (EBSA) recommendations related to the TSP withdrawals process to determine their current status. Section III.B documents the status of these prior recommendations. In summary, two recommendations have been implemented and closed and one recommendation has been partially implemented and remains open.

Section III.C presents the findings and recommendations from this performance audit. Section III.D summarizes each open recommendation.

## **B. Findings and Recommendations from Prior Reports**

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

### **2005 Withdrawals Process Recommendation No. 2**

Title: Remaining balance in TSP account subsequent to full post-separation withdrawal

Original Recommendation: The Agency should identify those participants who have taken a full post-separation withdrawal but have balances remaining in their accounts, and disburse those remaining balances to the participants.

Reason for Recommendation: We judgmentally selected a sample of 118 transactions related to required minimum distributions (RMD) and abandonments/forfeitures. For six of the transactions tested, we noted that balances remained in the participants' accounts after the participants had separated from Federal service and had taken full post-separation withdrawals. Although three of the six aforementioned participant accounts were subsequently abandoned and forfeited in accordance with the Agency's established procedures, the other three accounts had balances remaining in them as of end of our fieldwork.

Status: **Implemented.**

During 2016, we noted that management refined their Small Account Balance Cashout (SABCO) process which identifies any remaining small balances for

participants who had previously taken a full post-separation withdrawal. Once identified through the SABCO process, the balances are properly disbursed. Additionally, as part of our current year audit procedures over full post-separation withdrawals, we did not identify any instances in which residual balances remained in a participant's account after the full withdrawal was processed. As such, we determined that management has properly addressed this recommendation through the processes discussed above and we consider this recommendation closed.

Disposition: Recommendation Closed.

### **2015 Withdrawals Process Recommendation No. 1**

Title: Court Order Entitlement Weakness

Original Recommendation: The Agency should implement controls that require the review of court order entitlements disbursed to payee skeletal accounts, as of the date of payment, to ensure that payments from payee skeletal accounts are paid based on total available vested funds from the related participant account.

Reason for Recommendation: During our 2015 performance audit over court order withdrawals, we tested a sample of 58 withdrawals and identified one exception in which a court order entitlement in the amount of \$7,790 was not fully disbursed to the payee despite the participant account having sufficient vested funds.

Status: **Partially Implemented.**

As part of our current year audit procedures, we tested a sample of 58 court order entitlement withdrawals noting no exceptions related to the amounts disbursed from payee skeletal accounts. The Agency designed control processes that require the review of court order entitlements, disbursed to skeletal payee accounts, as of the date of payment to ensure that payments from payee skeletal accounts are paid based on total available vested funds from the related participants TSP account. However, the control processes were not implemented until January 30, 2017. As such, the control was not in place

long enough as of the end of our fieldwork for us to sufficiently test it. Therefore, the recommendation remains open.

Disposition: Recommendation Open.

### **2015 Withdrawals Process Recommendation No. 2**

Title: Insufficient Documentation for TSP Imaging System Controls

Original Recommendation: The Agency should update its documentation related to the TSP imaging system controls to provide Agency personnel a sufficient understanding of the related controls, allowing for proper monitoring of them.

Reason for Recommendation: During our 2015 performance audit, one of the edit checks selected for testing was designed to trigger a specific program error code if an annuity was selected as part of a mixed election withdrawal and the participant's account balance was less than the required \$3,500. When testing this control, it did not appear to be operating as designed. We inquired as to the cause of the potential deficiency and Agency personnel initially had difficulties explaining the nature of the edit check and which component of the TSP system actually executed it. The Agency determined that the edit check was properly documented but that the participant account created to test the edit check was established incorrectly in the test environment. As a result, we were unable to complete our testing over this edit check. This issue occurred because the documentation related to the TSP imaging system controls was not at an appropriate level of detail to enable the Agency to properly explain the edit check in a timely manner or properly design a test to demonstrate the edit check was operating effectively.

Status: **Implemented.**

During our current year audit, we determined that the Agency and its contractors updated current policies and procedures related to the TSP Imaging System controls, and trained its employees and contractors on establishing test environment scenarios. Further, during our current year audit procedures, we observed system edit checks and application controls in

the test environment noting no issues with the design of the controls observed. As such, this recommendation is closed.

Disposition: Recommendation Closed.

### **C. 2017 Findings and Recommendations**

While conducting our performance audit over the TSP withdrawal process, we identified four new fundamental control findings and three other control findings. EBSA requests appropriate and timely action for each recommendation.

#### **FUNDAMENTAL CONTROL FINDINGS AND RECOMMENDATIONS**

##### **2017-01: Failed System Edit Checks for In-Service Withdrawals**

Upon receipt of an in-service withdrawal form (e.g., aged-based or financial hardship), the TSP processes the form in the TSP system and automatic edit checks are performed to validate that the participant is eligible to receive the type of withdrawal requested. During our current year audit procedures over aged based in-service withdrawals, we tested 58 samples and identified 1 instance in which a financial hardship request was incorrectly processed as an age-based withdrawal and system edit checks failed to properly reject the age-based withdrawal as the participant's age did not meet the eligibility requirements for the withdrawal type. Upon receipt of the withdrawal, the participant alerted the TSP that they had incorrectly received an age based withdrawal payment instead of the financial hardship withdrawal they had originally requested. The withdrawal was subsequently corrected by the Agency.

The issue noted above occurred because system edit check controls failed to reject the age-based withdrawal request in which the participant was not eligible. Furthermore, the Agency did not have effective monitoring controls in place to ensure that edit check controls were operating on a consistent basis.

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, states:

Principle 11.08, Application controls, sometimes referred to as business process controls, are those controls that are incorporated directly into computer applications

to achieve validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master file, interface, and data management system controls.

Principle 16.05, Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparison, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiently be electronically compiling evaluations of controls and transactions.

5 USC 8433(h)(1)(A) states,

An employee or member may apply, before separation, to the Board for permission to withdraw an amount from the employee's or Member's account based upon the employee or Member having attained age 59 1/2.

5 CFR 1650.31(a) states,

A participant who has reached age 59 1/2 and who has not separated from Government service is eligible to withdraw all or a portion of his or her vested TSP account balance in a single payment. The amount of an age-based withdrawal request must be at least \$1,000, unless the withdrawal request is for the entire vested account balance.

**1. The Agency should:**

- a) Determine the cause of the system edit check failure and develop appropriate corrective actions ensure the system is preventing inappropriate age based withdrawals.**
- b) Develop and implement monitoring controls over edit checks to ensure they are operating effectively on a consistent basis.**

Without effective system process controls in place over age based in-service withdrawals, there is an increased risk of improper disbursements that could result in noncompliance with FERSA and Agency regulations.

## **2017-02: Ineffective Spousal Consent Edit Checks**

During our current year procedures, we tested a sample of 58 financial hardship withdrawals and identified 2 instances in which a married participant enrolled in FERS did not obtain the required signature on the form TSP-76 *Financial Hardship In-Service Withdrawal Request* to evidence spousal consent prior to the TSP disbursement of the funds.

Although the TSP system contained information related to the two participants' marital status, the Agency informed us that this data was not maintained because of difficulties obtaining current data on participants' marital status from the relevant federal agencies and uniformed services. Therefore, the Agency relied upon participants to self-report their marital status prior to processing withdrawals requests that required spousal consent.

5 USC 8435(e) states,

A loan or withdrawal may be made to a married employee or Member under section 8333(g) and (h) of this title only if the employee's or Member's spouse consents to such loan or withdrawal in writing.

5 CFR 1650.62(c) states,

A participant who is covered by FERS or who is a member of the uniformed services must obtain the consent of his or her spouse before obtaining an in-service withdrawal, unless the participant was granted an exception under this subpart to the signature requirement within 90 days of the date the withdrawal form is processed by the TSP. To show the spouse's consent, a participant must submit to the TSP record keeper a properly completed withdrawal request form, signed by his or her spouse in the presence of a notary. Once a form containing the spouse's consent has been submitted to the TSP record keeper, the spouse's consent is irrevocable for that withdrawal.

### **2. The Agency should:**

- a) Coordinate with federal agencies and the uniform services to obtain information on participants' current marital status and any subsequent changes to that status.**
- b) Develop, document, and implement policies and procedures to verify that the spousal consent section of applicable withdrawals forms is properly completed for all married**

**participants or that a Form TSP-16 has been properly completed and approved prior to processing withdrawal disbursements.**

Without sufficient controls in place to ensure that spousal consent is obtained when required, there is an increased risk that funds will be improperly disbursed to married TSP participants covered by FERS, which would result in noncompliance with FERSA and Agency regulations.

### **2017-03: Incomplete Withdrawal Form Notarizations**

The instructions to the TSP withdrawal request forms (e.g., Forms TSP 70 and TSP 73) state that signatures on the forms must be notarized in order to be processed. During our current year audit procedures over death benefit payments, court orders, post-separation withdrawals, and changes in monthly payments, we tested a combined sample across all areas mentioned of 232 withdrawals and identified 8 instances (1 in death benefit payments, 2 in court orders, 4 in post-separation withdrawals, 1 in changes in monthly payments) in which there was no notary seal in the Certification and Notarization section on the withdrawal request form.

The exception occurred because the Agency's current policies and procedures did not require Agency personnel to verify that a notary seal was properly included on the form for those states in which it was required. We determined, however, that each of the identified withdrawals were accurately processed based on the withdrawal request submitted.

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, section 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.

- 3. The Agency should revise its current policies and procedures related to withdrawals request forms to require the verification of notary seals based on the applicable state requirements in order to ensure that the form has been properly notarized.**

Without sufficient policies and procedures in place over withdrawal request forms to ensure they are properly notarized, there is an increased risk of unauthorized withdrawal disbursements.

## **2017-04: Insufficient Documentation for Certain TSP System Processes and Controls**

During testing of current year audit procedures, we requested documentation on the system edit checks and the nightly unified process within the TSP system as it related to the withdrawals process. The Agency provided us documentation for all edit checks in the TSP system; however, the Agency was not able to sufficiently explain which system edit checks and unified process configuration specifically applied to withdrawals related transactions.

This issue occurred because the documentation was not at an appropriate level of detail to support a collective understanding of TSP processing control procedures related to withdrawal transactions.

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 12.03 states:

Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.

- 4. The Agency should ensure applicable personnel review relevant documentation to obtain a sufficient understanding of the TSP system's automated control procedures and applicable processes relevant to withdrawals processing so they can properly monitor the effectiveness of the controls.**

Without proper understanding of the relevant documentation, the Agency may not be able to be able to monitor existing controls to ensure they are operating effectively, properly train new employees in the event that current employees suddenly vacate their positions, or adequately explain how the system operates to individuals requiring this information.

## OTHER CONTROL FINDINGS AND RECOMMENDATIONS

### **2017-05: Withdrawal Request Forms Processing Weaknesses**

During our current year audit procedures, we tested a sample of 58 financial hardship withdrawals, and noted 1 instance in which the date on the participant's submitted Form TSP-76 was incorrectly entered in the TSP system by an Analyst. In this instance, the Analyst entered the date July 21, 2015, the processing date, into the TSP system instead of the date reported on the form by the participant, which was July 21, 1985. As a result, the system did not properly reject a form that contained invalid data.

The Analyst did not appropriately follow the applicable procedures that required the data per the form be entered into the TSP system, as is, so that the system controls would properly reject the form if the data was invalid.

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 16.05 states,

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.

- 5. The Agency should reinforce the withdrawals form processing procedures with applicable contractors and Agency personnel and provide additional training related to the procedures, as necessary.**

Without sufficient execution of form processing procedures, there is an increased risk of inaccurate data being entered into the TSP system related to withdrawals disbursements.

### **2017-06: Untimely Participant Notifications for Account Abandonment**

All accounts for which no withdrawal election is made by the abandonment deadline are determined to be abandoned in August of the year following the year the participant turned age 70

½. During our current year procedures over account abandonments, we tested a sample of 58 abandoned accounts and identified 1 exception in which the TSP did not send the appropriate notification in March of the second distribution year to the participant related to the account abandonment timeline.

This exception occurred because the Agency's controls over notifications to participants were not sufficient to ensure that account abandonment notices were properly issued.

5 CFR 1650.16(c) states,

In the event that a participant does not withdraw his or her account or begin receiving payments in accordance with paragraph (a) of this section, the Board will transfer all of the funds in the participant's account not already invested in the Government Securities Investment (G) Fund to that fund. A notice of this action will be sent to the participant with a warning that his or her account will be declared abandoned and forfeited unless the participant comes into compliance with paragraph (a) by a date certain specified in the notice.

**6. The Agency should evaluate the notification process in order to develop appropriate corrective action to ensure that the TSP system is properly configured to ensure that the participants are notified of applicable withdrawal deadlines.**

Without sufficient controls in place to ensure that notifications are sent to participants timely to communicate the account abandonment timeline, there is an increased risk that participants will not have an opportunity to withdraw their accounts prior to abandonment. In addition, the Agency will not be compliant with Agency regulations if notices are not sent.

**2017-07: Participant Separation Package, Notice WC: 2016**

Upon notification that a participant has separated from service, the Agency mails Notice WC: 2016 to the participant as part of a separate package, which requests confirmation of certain information. This includes confirmation of certain personally identifiable information (PII) such as social security number, date of birth, and account number. The Agency informed us that it has an ongoing effort to review and minimize the amount of PII presented on all notices and forms and that the Notice WC: 2016 was part of that iterative effort.

Office of Management and Budget Circular A-130, *Managing Information as a Strategic Resource*, Chapter 5(f)(1)(d) states:

Limit the creation, collection, use, processing, storage, maintenance, dissemination, and disclosure of PII to that which is legally authorized, relevant, and reasonably deemed necessary for the proper performance of agency functions.

7. **The Agency should continue its efforts to evaluate the information included in the Notice WC: 2016 and other forms and identify opportunities to minimize the amount of PII included in notifications disseminated to participants.**

Without sufficient safeguards in place to monitor PII information mailed to participants, there is an increased risk of data security incidents impacting TSP participants.

#### **D. Summary of Open Recommendations**

##### **2015 RECOMMENDATION:**

##### **RECOMMENDATION TO ADDRESS FUNDAMENTAL CONTROLS**

1. The Agency should implement controls that require the review of court order entitlements disbursed to payee skeletal accounts, as of the date of payment, to ensure that payments from payee skeletal accounts are paid based on total available vested funds from the related participant account.

##### **2017 RECOMMENDATIONS:**

##### **RECOMMENDATIONS TO ADDRESS FUNDAMENTAL CONTROLS**

1. The Agency should:
  - a) Determine the cause of the system edit check failure and develop appropriate corrective actions to ensure the system is preventing inappropriate age based withdrawals.
  - b) Develop and implement monitoring controls over edit checks to ensure they are operating effectively on a consistent basis.

2. The Agency should:
  - a) Coordinate with federal agencies and the uniform services to obtain information on participants' current marital status and any subsequent changes to that status.
  - b) Develop, document, and implement policies and procedures to verify that the spousal consent section of applicable withdrawals forms is properly completed for all married participants or that a Form TSP-16 has been properly completed and approved prior to processing withdrawal disbursements.
3. The Agency should revise its current policies and procedures related to withdrawals request forms to require the verification of notary seals based on the applicable state requirements in order to ensure that the form has been properly notarized.
4. The Agency should ensure applicable personnel review relevant documentation to obtain a sufficient understanding of the TSP system's automated control procedures and applicable processes relevant to withdrawals processing so they can properly monitor the effectiveness of the controls.

#### **RECOMMENDATIONS TO ADDRESS OTHER CONTROLS**

5. The Agency should reinforce the withdrawals form processing procedures with applicable contractors and Agency personnel and provide additional training related to the procedures, as necessary.
6. The Agency should evaluate the notification process in order to develop appropriate corrective action to ensure that the TSP system is properly configured to ensure that the participants are notified of applicable withdrawal deadlines.
7. The Agency should continue its efforts to evaluate the information included in the Notice WC: 2016 and other forms and identify opportunities to minimize the amount of PII included in notifications disseminated to participants.



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

January 18, 2018

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 of December 12, 2017, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Withdrawals Process December 2017. My comments with respect to this report are enclosed.

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

Very truly yours,

A handwritten signature in blue ink that reads "Ravindra Deo". The signature is written in a cursive, slightly slanted style.

Ravindra Deo

Enclosure

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

**Prior Year Findings to Address Fundamental Controls**

**2015-1: Court Order Entitlement Weakness**

The Agency should implement controls that require the review of court order entitlements disbursed to payee skeletal accounts, as of the date of payment, to ensure that payments from payee skeletal accounts are paid based on total available vested funds from the related participant account.

**Agency Response:**

As described in the audit finding status findings, the Agency designed and implemented improvements to the control processes. These changes were fully implemented by 1/30/2017. We consider this finding closed.

**2017 RECOMMENDATIONS TO ADDRESS FUNDAMENTAL CONTROLS**

**2017-1: Failed System Edit Checks for In-Service Withdrawals**

- a) The Agency should determine the cause of the system edit check failure and develop appropriate corrective actions to ensure the system is preventing inappropriate age based withdrawals.
- b) The Agency should develop and implement monitoring controls over edit checks to ensure they are operating effectively on a consistent basis.

**Agency Response:**

- a) The Agency concurs with the finding. The Agency will review the current automated system checks and update to prevent inappropriate age based withdrawals. This action will be completed by September 30, 2018.
- b) The Agency concurs with the finding. The cause of the failure was human error due to a design flaw within the software user interface. The Agency corrected the design flaw within the process and implemented the changes in August 2017. We consider this finding closed.

**2017-2: Ineffective Spousal Consent Edit Checks**

The Agency should:

- a) Coordinate with federal agencies and the uniform services to obtain information on participants' current marital status and any subsequent changes to that status.
- b) Develop, document, and implement policies and procedures to verify that the spousal consent section of applicable withdrawals forms is properly completed for all married participants or that a Form TSP-16 has been properly completed and approved prior to processing withdrawal disbursements.

**Agency Response:**

- a) The Agency does not concur with this finding. Marital status is not maintained by all Federal agencies and payroll offices. The Agency has Policies and Procedures in-place that define how a participant's marital status is verified at the time of disbursement. The Agency is following its established guidelines.
- b) The Agency does not concur with this finding. The Agency has Policies and Procedures in-place that define how a participant's marital status is verified at the time of disbursement. The Agency is following its established guidelines.

**2017-3: Incomplete Withdrawal Form Notarizations**

The Agency should revise its current policies and procedures related to withdrawals request forms to require the verification of notary seals based on the applicable state requirements in order to ensure that the form has been properly notarized.

**Agency Response:**

The Agency does not concur with the finding. The Agency is in compliance Code of Federal Regulation (CFR) regarding this matter. The Agency's current policies and procedures meet the CFR requirements and the Agency is in compliance with the policies and procedures related to notary requirements.

**2017-4: Insufficient Documentation for Certain TSP System Processes and Controls**

The Agency should ensure applicable personnel review relevant documentation to obtain a sufficient understanding of the TSP system's automated control procedures and applicable processes relevant to withdrawals processing so they can properly monitor the effectiveness of the controls.

**Agency Response:**

The Agency believes the root of this matter is due to a lack of communication between the Agency and its auditors. The Agency will ensure that all appropriate parties are in attendance in future audit meetings. We consider this matter closed.

**2017 RECOMMENDATIONS TO ADDRESS OTHER CONTROLS****2017-5: Withdrawal Request Forms Processing Weaknesses**

The Agency should reinforce the withdrawals form processing procedures with applicable contractors and Agency personnel and provide additional training related to the procedures, as necessary.

**Agency Response:**

The Agency does not concur with the recommendation. The Agency believes that its training is sufficient and adequate. Manual data entry results in occasional human error. The Agency understands and accepts the risk related to human error. We consider this matter closed.

**2017-6: Untimely Participant Notifications for Account Abandonment**

The Agency should evaluate the notification process in order to develop appropriate corrective action to ensure that the TSP system is properly configured to ensure that the participants are notified of applicable withdrawal deadlines.

**Agency Response:**

The Agency concurs with the recommendation. The Agency identified the reason the participant did not receive the March notification. Improvements to the notification process were developed and will be put into production in March 2018.

**2017-7: Participant Separation Package, Notice WC: 2016**

The Agency should continue its efforts to evaluate the information included in the Notice WC: 2016 and other forms and identify opportunities to minimize the amount of PII included in notifications disseminated to participants.

**Agency Response:**

The Agency concurs with the recommendation. All TSP notices, including Notice WC2016 – ‘Notice Upon Separation from Federal Service,’ are currently being reviewed

under the TSP Form Privacy Review project. The project's goal is to determine instances of unnecessary PII from all TSP notices. Once that project is complete, another project to remove unnecessary PII will commence and this Notice will be modified as part of that project. The timeline will be determined after the first project completes in June 2018.

KEY DOCUMENTATION AND REPORTS REVIEWED

**Federal Retirement Thrift Investment Board Documents and Reports**

- TSP Bulletin 14-3, *Agency Responsibilities When Thrift Savings Plan Participants Separate From Federal Service*
- TSP Bulletins 14-4/14-U-3, *Thrift Savings Plan Death Benefits*
- TSP Bulletin 15-2, *New Default Investment Fund for Civilian and Beneficiary TSP Participants*
- TSP Booklet: *In-Service Withdrawals*, dated May 2012
- TSP Booklet: *Withdrawing Your TSP Account After Leaving Federal Service*, dated March 2014
- TSP Booklet: *Your TSP Account: A Guide for Beneficiary Participants*, dated September 2015
- TSP Booklet: *Court Orders and Powers of Attorney*, dated September 2014
- TSP Booklet: *Death Benefits*, dated September 2015
- *Internal Audit of the Manual Thrift Savings Plan Transaction Process*, July 30, 2015
- *Internal Audit of the Daily Investment Process*, June 1, 2016
- TSP Tax Notice: *Tax Information: Death Benefit Payments*, dated October 2015
- TSP Tax Notice: *Required Minimum Distributions*, dated September 2015
- TSP Tax Notice: *Required Minimum Distribution for Beneficiary Participants*, dated September 2015
- TSP Tax Notice: *Tax Information: Payments From Your TSP Account*, dated January 2016
- TSP Leaflet: *The Time is Near for Withdrawing Your TSP Account*, dated October 2010
- TSP Leaflet: *TSP Withdrawals*, dated April 2013
- *OPOP.121 Withdrawals Procedures*, dated February 2017
- *Special Processing Unit Desk Procedures*, dated June 2015
- Form TSP-3, *Designation of Beneficiary*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- Form TSP-17, *Information Relating to Deceased Participant*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- Form TSP-16, *Exception to Spousal Requirements*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- Form TSP-75, *Age-Based In-Service Withdrawal Request*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- Form TSP-76, *Financial Hardship In-Service Withdrawal Request*, for selected dates during our scope period of July 1, 2015 through December 31, 2016

**KEY DOCUMENTATION AND REPORTS REVIEWED**

- Form TSP-70, *Request for Full Withdrawal*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- Form TSP-73, *Change in Monthly Payments*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- Form TSP-77, *Request for a Partial Withdrawal When Separated*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- Form TSP-90, *Withdrawal Request for Beneficiary Participants*, for selected dates during our scope period of January , 20141 through June 30, 2015
- TSP 3404, *Investment True-Up of Trades Report – Withdrawal Activity*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- TSP 3405, *Investment True-Up of Trades Report – Loan Disbursements*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- TSP 3070, *Miscellaneous Receipts and Loan Refunds*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- TR-20, *OmniPay Disbursement Detail – Check and ETF Payments*, for selected dates during our scope period of July 1, 2015 through December 31, 2016
- SF-1166, *Voucher and Schedule of Payments*, for selected dates during scope period July 1, 2015 through December 31, 2016
- TSP-9013, *Disbursement Listing Report – Detail – Payment Type Totals*, for selected dates during scope period July 1, 2015 through December 31, 2016
- TSP-9120, *Disbursement Reconciliation*, for selected dates during scope period July 1, 2015 through December 31, 2016
- TSP-9130, *General Ledger Reconciliation*, for selected dates during scope period July 1, 2015 through December 31, 2016