



Employee Benefits Security Administration

Performance Audit of the Payroll Service Provider Thrift Savings Plan Operations at the Defense Finance and Accounting Service

August 22, 2025

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EXECUTIVE SUMMARY

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

As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of certain Thrift Savings Plan (TSP) account maintenance, loan, and withdrawal operations at the Defense Finance and Accounting Service (DFAS). DFAS operates as both an employing federal agency and as a payroll service provider for federal agencies and uniformed services. This performance audit covered the TSP operations of DFAS related to its role as a payroll service provider for active duty uniformed services personnel from the U.S. Army, U.S. Marine Corps, and U.S. Navy (the in-scope services). Our fieldwork was performed remotely from February 10, 2025, through May 30, 2025, in coordination with personnel primarily from DFAS. Our scope period for testing was January 1, 2024, through December 31, 2024.

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' (AICPA) *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 DFAS' TSP operations related to active duty uniformed services personnel from the in-scope services were to:

- Determine whether DFAS implemented certain procedures to 1) calculate and process uniformed service member contributions and loan payments accurately and timely in accordance with the members' elections; 2) transmit uniformed service member separation data to the TSP timely and accurately; 3) properly characterize uniformed service member TSP contributions as tax-deferred, tax-exempt, or Roth; 4) process adjustments owed by the uniformed services to the TSP; and 5) reconcile contributions for uniformed service members reported to the TSP to U.S. Department of the Treasury clearing accounts.
- Test compliance of DFAS' TSP operations with 5 USC 8432(a)(2), 8432(b)(1) and (A)(ii), 8432(c)(2)(B), 8432(d-f), 8440e(b)(2)(B), 8440e(d)(2), and 8440e(e)(2-3); and 5 CFR 1600.12(b)(d)(e), 1600.14(d), 1600.19(a-b), 1600.19(c)(2), 1600.20, 1600.21(b), 1600.22, 1600.23, 1600.34(b-c), 1601.13(a)(4)(i-iii), 1605.16, 1620.3, 1650.2, 1655.13(a-d), and 1655.14(a-f).
- Assess the status of the prior EBSA TSP open recommendations report in *Performance Audit of Certain Thrift Savings Plan Operations at the Defense Finance and Accounting Service*, dated September 19, 2019.

We present three new findings and two related recommendations, one of which addresses a fundamental control. Fundamental control findings and recommendations address significant¹ procedures or processes that have been designed and operate to reduce the risk that material intentional or unintentional processing errors could occur without timely detection or that assets are inadequately safeguarded against loss. Other control findings and recommendations address procedures or processes that are less significant than fundamental controls. These recommendations are intended to strengthen the TSP operations at DFAS. DFAS should review and consider these recommendations for timely implementation. Section III.C presents the details that support the current year findings and recommendations.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2024, through December 31, 2024, DFAS implemented certain procedures to 1) calculate and process uniformed service member

¹ *Government Auditing Standards* section 8.15 defines significance in the context of a performance audit.

contributions and loan payments accurately and timely in accordance with the members' elections; 2) transmit uniformed service member separation data to the TSP timely and accurately; 3) properly characterize uniformed service member TSP contributions as tax-deferred, tax-exempt, or Roth; 4) process adjustments owed by the uniformed services to the TSP; and 5) reconcile contributions for uniformed service members reported to the TSP to U.S. Department of the Treasury clearing accounts. However, we noted internal control weaknesses in certain areas that could adversely affect the TSP payroll operations at DFAS.

As a result of our compliance testing, we did not identify any instances of noncompliance with applicable provisions of United States Code (USC) Chapter 5, Sections 8432(a)(2), 8432(c)(2)(B), 8432(d-e), 8440e(b)(2)(B), 8440e(d)(2), 8440e(e)(2-3); or Code of Federal Regulations (CFR) Title 5, Parts 1600.12(b)(d)(e), 1600.14(d), 1600.19(a-b), 1600.19(c)(2), 1600.20, 1600.21(b), 1600.22, 1600.23, 1600.34(b-c), 1601.13(a)(4)(i-iii), 1605.16, 1620.3, 1650.2, 1655.13(a-d), 1655.14(a-b). However, we did identify instances of noncompliance with certain elements of 5 USC 8432(b)(1) and (A)(ii), and 8432(f) and 5 CFR 1655.14 (c-f) as described in Section III.C.

We also reviewed two prior EBSA recommendations related to the DFAS' TSP operations to determine their current status. Section III.B documents the status of the prior recommendations. In summary, the recommendations have been implemented and closed.

DFAS' response to these recommendations is included as an appendix within this report (Appendix A). DFAS concurred with all recommendations.

This performance audit did not constitute an audit of the TSP's or DFAS' financial statements or an attestation engagement as defined by *Government Auditing Standards* and the AICPA standards for attestation engagements. KPMG was not engaged to, and did not, render an opinion on DFAS' 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, DFAS management

and Agency management. The report is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

August 22, 2025

I. BACKGROUND OF THE INVESTMENT MANAGEMENT PROCESS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System (FERS) and the Blended Retirement System (BRS), and provides a Federal (and, in certain cases, State) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of the uniformed services, and members of Congress and certain Congressional employees. The TSP began accepting contributions on April 1, 1987, and as of December 31, 2024, had approximately \$963 billion in assets and approximately 7.2 million participants².

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

B. DFAS' Uniformed Services Payroll Operations³

DFAS is an agency within the U.S. Department of Defense (DoD) charged with providing finance and accounting support to the DoD and its components around the world. DFAS' mission is to "deliver financial excellence and quality pay services to [their] customers" and their vision is "to be a valued partner in financial management by consistently delivering first class services and products." DFAS is the payroll service provider to DoD uniformed services personnel, including the U.S. Army, U.S. Marine Corps, and U.S. Navy (the in-scope services). In fiscal year 2024, DFAS processed approximately \$137 million pay transactions for approximately 6.6 million accounts and managed approximately \$1.9 trillion in military retirement and health benefit funds.

1. Organization of DFAS' Military Payroll Function and Pay Systems

DFAS' military payroll [REDACTED] function is responsible for processing payroll and benefits contributions, including TSP contributions, for uniformed services personnel. [REDACTED] operations

² Source: Minutes of the Federal Retirement Thrift Investment Board meeting held on January 28, 2025, posted on www.frtib.gov.

³ Sources: "About DFAS" page posted on www.dfas.mil, [REDACTED]
[REDACTED]

are organized into dedicated teams for active duty and reserve members for DoD uniformed services personnel [REDACTED] operations are supported by other DFAS functions, such as [REDACTED] [REDACTED], which operates DFAS' pay systems. Specific to the in-scope services, the U.S. Army members' payroll and benefits contributions are processed at [REDACTED] [REDACTED], and the U.S. Marine Corps and U.S. Navy members' payroll and benefits contributions are processed at [REDACTED]. DFAS uses the [REDACTED] [REDACTED] to process payroll and benefits for the U.S. Army and U.S. Navy uniformed services. DFAS uses data and reports from the [REDACTED] [REDACTED] to process payroll and benefits for the U.S. Marine Corps uniformed services⁴.

C. DFAS' TSP Account Maintenance Activities

1. TSP Elections⁵

Uniformed service members may elect to make traditional, tax deferred, or Roth TSP contributions. Uniformed service members may elect to contribute a percentage of basic pay, up to 100%, to their TSP accounts. Uniformed service members may also elect to contribute up to 100% of incentive pay, special pay, or bonus pay to their TSP accounts, as long as they also contribute at least 1% of basic pay. For tax-exempt pay (i.e., pay that is subject to the combat zone tax exclusion), the elected TSP account contributions are also tax-exempt.

A participant's total traditional and Roth TSP contributions cannot exceed the Internal Revenue Code (IRC) Section 402(g) annual elective deferral limit, which was \$23,000 in 2024. Beginning in the year that a participant turns 50, the participant is eligible to make catch-up contributions in excess of the IRC elective deferral limit. In order to be eligible for catch-up contributions, the participant must already be contributing an amount that will exceed the IRC elective deferral limit. Catch-up contributions are subject to a limit, separate from the IRC's elective deferral limit, which was \$7,500 in 2024.

The BRS allows uniformed service members to receive TSP contributions and other benefits from their employing service for a 20% reduction in their military retirement annuity. Uniformed

⁴ The [REDACTED] system is owned by the U.S. Marine Corps rather than DFAS. As such, [REDACTED] information technology application controls were not included in the scope of this audit, and we have not included narrative of [REDACTED] automated processes within this section.

⁵ Source: "Making Contributions" page posted on www.tsp.gov.

service members that began employment on or after January 1, 2018 are automatically enrolled in the BRS after 60 days of service. Uniformed service members employed prior to January 1, 2018, with fewer than 12 years of service, were eligible to opt into the BRS during calendar year 2018 and receive matching contributions. For BRS participants, the 1% agency automatic contribution begins after completing 60 days of service. Matching contributions of up to 4% of basic pay begin after completing two years of service.

2. TSP Election Processing and Submission to the TSP System⁶

A uniformed service member initiates contributions outside of automatic enrollment by submitting a request in myPay, a DFAS front-end application that allows service members to view, enter, or modify certain personnel and payroll-related information. MyPay interfaces with [REDACTED] operations on a nightly basis to update the uniformed service participant's master military pay account (MMPA), which then updates [REDACTED]. Uniformed service members may also complete Form TSP-U-1, *Election Form*, and submit it to the Defense Military Pay Office (DMO) at their base or location. The elections on the form are manually entered into a field personnel system, which interfaces with [REDACTED] operations on a nightly basis to update the uniformed service participant's MMPA which then updates [REDACTED].

TSP election information, along with certain other uniformed service member data in [REDACTED], interface with the TSP recordkeeping system (TSP system). This information establishes the uniformed service member's employee data record (EDR) in the TSP system. The EDR contains non-financial personnel information relevant to the TSP for purposes of managing the participant's TSP account. Such information includes TSP elections, service member name, and mailing address. The EDR is maintained within the TSP system, and updates occur when a member updates information or elections via the aforementioned methods or when DFAS processes changes to employment code, employment status, or other personnel information.

3. TSP Contribution Processing⁶

The main drivers of a service member's TSP contributions are the service member's TSP contribution elections, as discussed above, and pay. Basic pay is a function of the service member's pay grade and years of service. Other types of pay are received as the service member qualifies for them. DFAS publishes military pay tables on its website.

⁶ Sources: DFAS internally-sourced standard operating procedures, flowcharts, and system documentation.

DFAS [REDACTED] operations personnel within each component submit TSP contributions and other TSP adjustments to the TSP system via a daily transfer of funds journal voucher through Form TSP-U-2, *Certification of Transfer of Funds and Journal Voucher*. Each component processes its own voucher any time a TSP contribution or adjustment must be made, which approximates a daily frequency. For regular monthly TSP contributions, the journal voucher is sent to TSP two days after the end of the month with the appropriate pay date as the active service members are typically paid monthly. The journal vouchers are certified within [REDACTED] and are automatically populated within the TSP system.

4. TSP Reject Reports⁶

After each voucher submission, the TSP system rejects any transactions with discrepancies between the voucher and the participant's EDR. The rejects are reported to DFAS on the daily TSP Report [REDACTED]. Contributions or other adjustments will not be processed in the TSP system until the discrepancies are corrected and re-submitted on a future voucher.

5. Breakage and Negative Adjustments⁶

Breakage represents the gain realized or loss incurred on makeup or late contributions. It is the difference between the value of the share of the applicable TSP investment fund(s) that would have been purchased on the “as of”⁷ date and the value of those shares on the date the contributions are posted to a participant’s account. Uniformed service members may be entitled to breakage when they miss a payment because of a DFAS, uniformed service, or TSP error and a correction is not made within 30 days. Participants may identify missed contributions and file a breakage claim with their payroll office. DFAS payroll operations personnel review and approve or deny the claims. Approved claims are then communicated to the TSP for processing. The TSP may also identify makeup or late contributions that are eligible for breakage and automatically calculate and process the breakage in the TSP system. DFAS reconciles breakage processed by the TSP system to DFAS’ TSP clearing accounts during the month-end reconciliation process (see Section C.6).

Negative adjustments represent erroneous transactions that result in a participant over-contributing to their TSP account because of payroll errors. Such errors include receipt of a duplicate bonus, untimely update of hazard pay, and untimely separation processing. The TSP system calculates

⁷ The “as of” date is the previous pay date for which the contributions should have been posted to the participant’s account and is used by payroll offices on payment records to report makeup and late contributions.

and reports negative adjustments to DFAS on a daily basis. DFAS reconciles negative adjustments processed by the TSP system to DFAS' TSP clearing accounts during the month-end reconciliation process (see Section C.6).

6. TSP Clearing Account Reconciliation⁶

On a monthly basis, DFAS accounting operations reconcile the DFAS TSP clearing account to the balance reported by the U.S. Department of the Treasury (Treasury) on the [REDACTED] [REDACTED] and to reports from the TSP system. The TSP forms present monthly summaries of contributions processed by the TSP system, including breakage and negative adjustments, during the month. DFAS accounting operations personnel research and resolve any differences identified. Differences between DFAS' TSP clearing account and the [REDACTED] balance could indicate an adjustment is needed in the withholdings reported to Treasury. Differences between DFAS' TSP clearing account and the TSP system reports are primarily caused by rejected transactions, breakage, or negative adjustments claimed by the TSP.

D. TSP Loan Activities and Processing⁸

TSP participants are permitted to borrow funds from their TSP account any time before separation⁹. TSP loans can be obtained for the purchase of a primary residence or for general purposes. Uniformed service participants apply and are approved for loans through the Agency. In order to obtain a loan, participants must have at least \$1,000 of personal contributions and associated earnings in their account, be a currently employed member of the uniformed services in pay status, and have not repaid a TSP loan of any type in full within the past 30 days.

Once approved by the Agency, loans are disbursed from the participant's TSP account. New loans and the status of active loans are reported to DFAS on the daily TSP Report [REDACTED] [REDACTED], which interfaces with [REDACTED]. DFAS processes loan payments as allotments from a uniformed service member's pay and submits the payments to the TSP. Any transactions with discrepancies between the voucher and the TSP system are reported on the TSP Report [REDACTED] [REDACTED] (see Section C.4). DFAS continues to deduct loan repayments from the uniformed service member's pay until the TSP Report [REDACTED] indicates that the loan has been repaid in full.

⁸ Sources: "TSP Loans" page posted on www.tsp.gov, [REDACTED]

⁹ Agency automatic (1%) contributions, matching amounts, and related earnings cannot be borrowed.

E. TSP Separation and Withdrawal Activities and Processing¹⁰

A uniformed service member's separation from service is initiated and processed through a similar process as TSP elections (see Section C.2). Separations from service are initiated at one of the service's personnel offices by processing a personnel action request (PAR). Once the PAR is processed, the uniformed service participant's MMPA is updated in [REDACTED] operations, which then updates [REDACTED] and triggers TSP contribution stops until the participant's separation from service. The pay systems interface on a nightly basis with the TSP system to transmit updated employment data and update the participant's EDR.

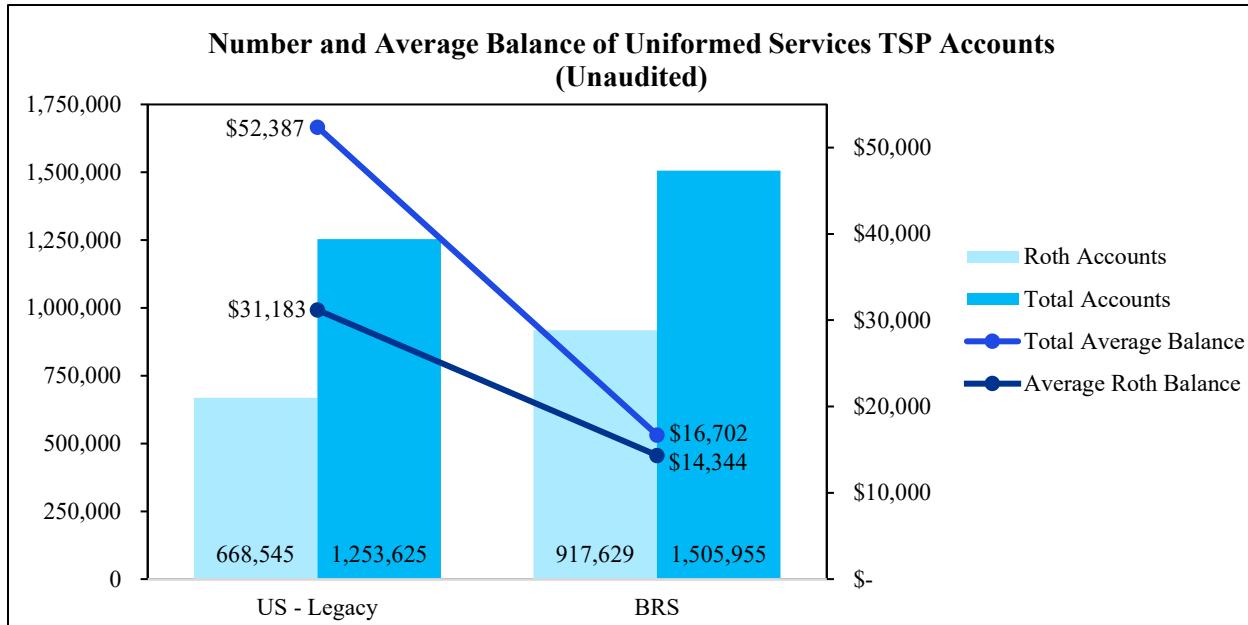
TSP participants are permitted to withdraw funds from their TSP account under certain circumstances. When participants separate from service, they are eligible to withdraw their vested account balance from the TSP while non-vested amounts are forfeited to the TSP. Participants that have not yet separated from service are eligible to withdraw personal contributions and attributable earnings from their TSP account due to financial hardship or based on age. Eligibility for and processing of in-service or post-separations withdrawals are managed through the Agency using the data, including employment code, on the participant's EDR.

¹⁰ Sources: "In-Service Withdrawal Basics" and "Withdrawals in Retirement" pages posted on www.tsp.gov, [REDACTED]

F. TSP Uniformed Services Statistics²

Exhibit I-1 presents the total number and average account balance of uniformed services participants as of December 31, 2024.

Exhibit I-1¹¹



¹¹ The US – Legacy account designation refers to uniformed service participants that did not opt-in to BRS in 2018 (see Section C.1).

Exhibit I-2 presents the proportion of participation by uniformed services accounts to total TSP accounts as of December 31, 2024. Uniformed services participants represent approximately 35% of contribution participation and 40% of overall participation as of December 31, 2024.

Exhibit I-2

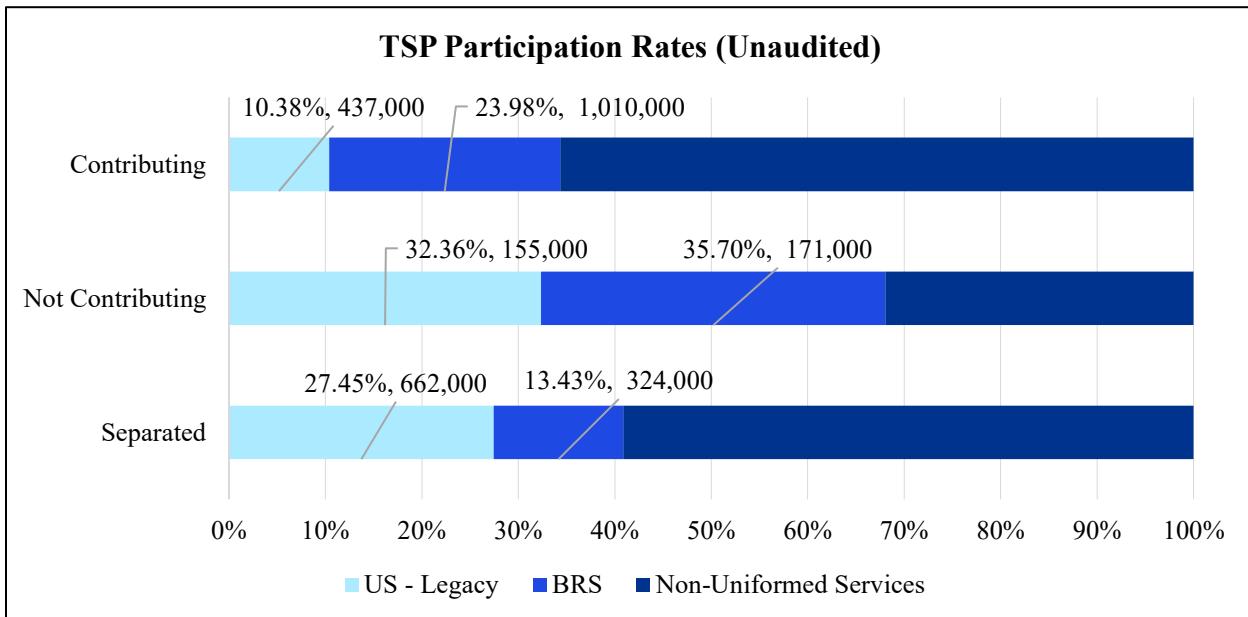
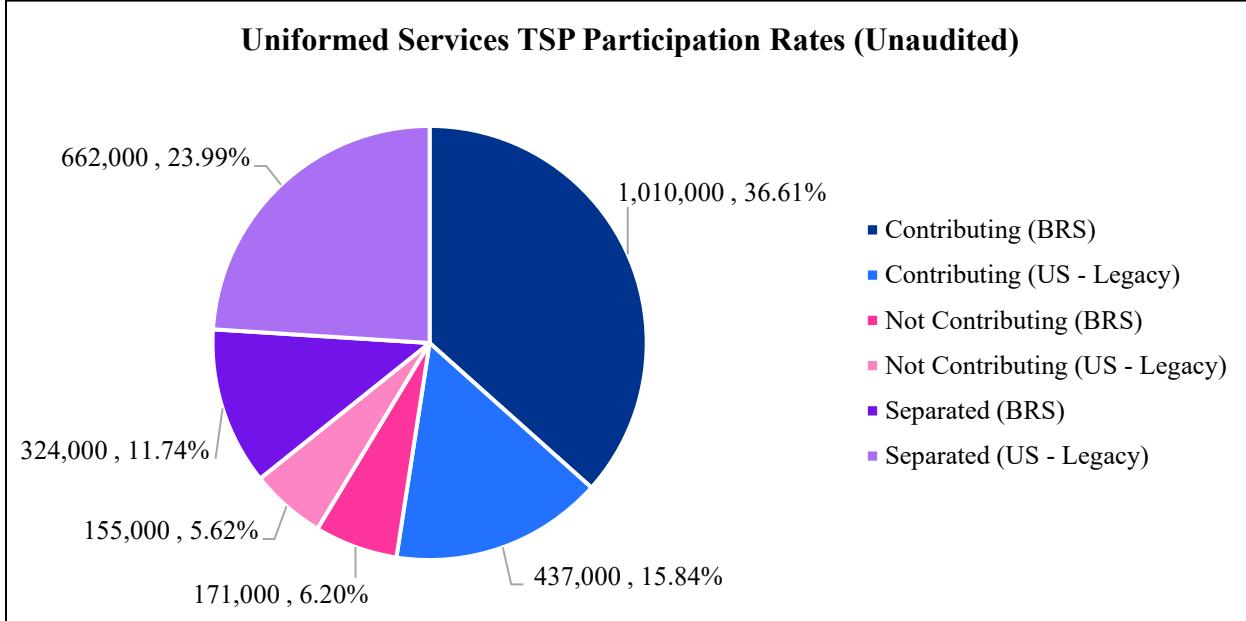


Exhibit I-3 presents the same participation activity as Exhibit I-2, specific to uniformed services accounts as of December 31, 2024. In total, uniformed services participants were primarily contributing to their TSP plans, with approximately 52% of participation relating to contributions. However, while the majority (67%) of BRS participants were contributing to their TSP accounts, the majority (53%) of US – Legacy participants were separated as of December 31, 2024.

Exhibit I-3



II. OBJECTIVES, SCOPE, AND METHODOLOGY

A. Objectives

The U.S. Department of Labor Employee Benefits Security Administration engaged KPMG LLP to conduct a performance audit of certain Thrift Savings Plan (TSP) account maintenance, loan, and withdrawal operations at the Defense Finance and Accounting Service (DFAS). DFAS operates as both an employing federal agency and as a payroll service provider for federal agencies and uniformed services. This performance audit covered the TSP operations of DFAS related to its role as a payroll service provider for active duty uniformed services personnel from the U.S. Army, U.S. Navy, and U.S. Marines (the in-scope services).

The objectives of our audit over DFAS' TSP operations were to:

- Determine whether DFAS implemented certain procedures to 1) calculate and process uniformed service member contributions and loan payments accurately and timely in accordance with the members' elections; 2) transmit uniformed service member separation data to the TSP timely and accurately; 3) properly characterize uniformed service member TSP contributions as tax-deferred, tax-exempt, or Roth; 4) process adjustments owed by the uniformed services to the TSP; and 5) reconcile contributions for uniformed service members reported to the TSP to U.S. Department of the Treasury clearing accounts.
- Test compliance of DFAS' TSP operations with United States Code (USC) Title 5 Sections 8432(a)(2), 8432(b)(1) and (A)(ii), 8432(c)(2)(B), 8432(d-f), 8440e(b)(2)(B), 8440e(d)(2), and 8440e(e)(2-3); and Code of Federal Regulations (CFR) Title 5, Parts 1600.12(b)(d)(e), 1600.14(d), 1600.19(a-b), 1600.19(c)(2), 1600.20, 1600.21(b), 1600.22, 1600.23, 1600.34(b-c), 1601.13(a)(4)(i-iii), 1605.16, 1620.3, 1650.2, 1655.13(a-d), and 1655.14(a-f).
- Assess the status of the prior EBSA TSP open recommendations reported in *Performance Audit of Certain Thrift Savings Plan Operations at the Defense Finance and Accounting Service*, dated September 19, 2019.

B. Scope and Methodology

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

Accountants' *Standards for Consulting Services*, using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was January 1, 2024, through December 31, 2024. We performed the audit in four phases: (1) planning, (2) arranging for engagement with DFAS, (3) testing and interviewing, and (4) report writing.

During the planning phase, team members developed a collective understanding of the activities and controls associated with the applications, processes, and personnel involved with DFAS' TSP operations. Arranging the engagement included contacting DFAS 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 controls¹² and compliance.

Our performance audit procedures included using random attribute sampling to select samples from the following populations related to DFAS' TSP operations for the period January 1, 2024, through December 31, 2024, which we used to achieve our audit objectives:

- Participants with an active TSP account, including Blended Retirement System (BRS) and non-BRS participants, during the period January 1, 2024, through December 31, 2024
- Participants who contributed to their TSP account, including BRS and non-BRS participants, during the period January 1, 2024, through December 31, 2024
- Participants who received matching contributions, including BRS and non-BRS participants, during the period January 1, 2024, through December 31, 2024
- Participants who established a new loan during the period January 1, 2024, through December 31, 2024
- Participants with an active loan during the period January 1, 2024, through December 31, 2024
- Participants with a zero-dollar loan balance during the period January 1, 2024, through December 31, 2024
- Participants with breakage on late or makeup contributions during the period January 1, 2024, through December 31, 2024

¹² We tested certain information technology (IT) application controls in the DFAS environment related to DFAS' TSP operations. The scope of our audit did not include the testing of general IT controls that support the consistent and effective functioning of those IT application controls by maintaining the continued proper operation of the DFAS environment.

- Participants with a negative adjustment to contributions during the period January 1, 2024, through December 31, 2024
- Participants who separated from service during the period January 1, 2024, through December 31, 2024
- Transactions with rejection errors included in TSP 1701, *Error Reports*, during the period January 1, 2024, through December 31, 2024
- Journal voucher submissions of TSP transaction activity during the period January 1, 2024, through December 31, 2024

We conducted these test procedures remotely in coordination with personnel primarily from DFAS' [REDACTED], the Federal Retirement Thrift Investment Board's Staff's (Agency) headquarters in Washington, DC, and the Agency's vendor's [REDACTED] [REDACTED]. Appendix B lists the key documentation and reports we reviewed during our performance audit. Because we used non-statistically determined sample sizes in our procedures, our results are applicable to the sample items we tested and were not extrapolated to the population.

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

The report writing phase entailed drafting a preliminary report, conducting an exit conference, providing a formal draft report to DFAS and 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) processes while remotely conducting a performance audit related to TSP operations at the Defense Finance and Accounting Service (DFAS). Our scope period for testing was January 1, 2024, through December 31, 2024. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel, reviewing key reports and documentation (Appendix B), and observing selected procedures.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2024, through December 31, 2024, DFAS implemented certain procedures to (1) calculate and process uniformed service member contributions and loan payments accurately and timely in accordance with the members' elections; 2) transmit uniformed service member separation data to the TSP timely and accurately; 3) properly characterize uniformed service member TSP contributions as tax-deferred, tax-exempt, or Roth; 4) process adjustments owed by the uniformed services to the TSP; and 5) reconcile contributions for uniformed service members reported to the TSP to U.S. Department of the Treasury clearing accounts. However, we noted internal control weaknesses in certain areas that could adversely affect the TSP operations at DFAS.

As a result of our compliance testing, we did not identify any instances of noncompliance with applicable provisions of United States Code (USC) Chapter 5, Sections 8432(a)(2), 8432(c)(2)(B), 8432(d-e), 8440e(b)(2)(B), 8440e(d)(2), 8440e(e)(2-3); or Code of Federal Regulations (CFR) Title 5, Parts 1600.12(b)(d)(e), 1600.14(d), 1600.19(a-b), 1600.19(c)(2), 1600.20, 1600.21(b), 1600.22, 1600.23, 1600.34(b-c), 1601.13(a)(4)(i-iii), 1605.16, 1620.3, 1650.2, 1655.13(a-d), 1655.14(a-b). However, we did identify instances of noncompliance with certain elements of 5 USC 8432(b)(1)(A)(ii), and 8432(f) and 5 CFR 1655.14 (c-f) as described in Section III.C.

We present three new findings and two related recommendations, outlined in Section III.C, related to the TSP operations at DFAS, one of which addresses a fundamental control. Fundamental control findings and recommendations address significant¹ procedures or processes that have been designed and operate to reduce the risk that material intentional or unintentional processing errors could occur without timely detection or that assets are inadequately safeguarded against loss. Other control findings and recommendations address procedures or processes that are less

significant than fundamental controls. These recommendations are intended to strengthen the TSP operations at DFAS. DFAS should review and consider these recommendations for timely implementation. DFAS' response to these recommendations is included as an appendix within this report (Appendix A).

We also reviewed two prior U.S. Department of Labor Employee Benefits Security Administration (EBSA) recommendations related to the TSP operations at DFAS to determine their current status. Section III.B documents the status of the prior recommendations. In summary, the recommendations have been implemented and closed.

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

B. Findings and Recommendations from Prior Reports

The EBSA findings and recommendations from prior reports that required follow-up are presented in this section. The prior EBSA findings and recommendations considered significant within the context of the audit objectives of this performance audit were reported in the Employee Benefits Security Administration, *Performance Audit of Certain Thrift Savings Plan Operations at the Defense Finance and Accounting Service*, dated September 19, 2019. The discussion below includes the current status of the recommendations.

2006 TSP Army Recommendation No. 4¹³:

Title: Communication of Transfers between Active Duty and Ready Reserve

Original Recommendation: DFAS should develop and implement system changes to [REDACTED] and [REDACTED] to allow for the interface of members' payroll data between the two components. In the interim, DFAS should establish procedures to address this issue, including the submission of a "T" code, indicating a transfer to the TSP, instead of an "S" code.

¹³ This finding was originally reported in Employee Benefits Security Administration, *Review of the Thrift Savings Plan Operations related to the United States Army*, dated July 21, 2006 and followed up on and remained open in the Employee Benefits Security Administration, *Performance Audit of Certain Thrift Savings Plan Operations at the Defense Finance and Accounting Service*, dated September 19, 2019.

Reason for [REDACTED] were not designed
Recommendation: to interface or transfer data with each other. When a member transferred within the U.S. Army (i.e., from active duty to ready reserve or from ready reserve to active duty), no mechanism was in place for the member's personnel or payroll information to transfer between the two components.

The payroll office to which the participant was transferring re-entered the participant's information into the respective [REDACTED] system. In order to resume contributing to the TSP, the participant re-elected contributions by completing a TSP election form (Form TSP-U-1) or processing through myPay. If the participant had a loan, it was the responsibility of the participant to notify DFAS for loan payments to be deducted from the participant's current pay.

Status: **Closed.**
During our current year audit procedures, we inspected the memorandum “Request for Closure of Recommendations 4 of Audit Report No. KPMG-DOL-TSP-2019, “Performance Audit of Certain Thrift Savings Plan Operations at the Defense Finance and Accounting Service” dated September 19, 2019,” as well as held additional discussions with DFAS. We noted the development and planned implementation of the following systems: [REDACTED]

[REDACTED] that will provide a single pay file for each service member, including both Active and Reserve Components and will allow for seamless transfers between components. The implementation of these systems will replace the [REDACTED] pay systems, effectively eliminating the need to implement an interface to transmit service members' payroll data between components. As these systems are developed and owned by the separate military services, this recommendation is now considered out of scope for DFAS. Additionally, during current year audit procedures, we did not identify any errors processing TSP contributions for transferred services members.

Disposition: **Recommendation Closed.**

2019 TSP Operations at DFAS Recommendation No. 1:

<u>Title:</u>	Untimely Start of Agency Automatic Contributions
<u>Original Recommendation:</u>	DFAS should develop, document, and implement a monitoring control over the timely submission of agency automatic 1% contributions for uniformed service members covered by BRS.
<u>Reason for Recommendation:</u>	During the scope period, DFAS did not have sufficient controls in place to pay automatic 1% TSP contributions timely. For a sample of █ Blended Retirement System (BRS) active duty participants in the U.S. Army, U.S. Navy, and U.S. Air Force during calendar year 2018, █ automatically enrolled in BRS did not receive the service's automatic 1% TSP contribution timely (i.e., upon reaching 60 days of service). We noted that DFAS subsequently identified and corrected the system error, and the missed contributions were paid during 2018.
	DFAS indicated that a █ system error caused one or more months of agency automatic 1% contributions not to be submitted to multiple TSP accounts.
<u>Status:</u>	Implemented. During our current year audit procedures, we inspected the memorandum "Request for Closure of Recommendation 1 of Audit Report No. KPMG-DOL-TSP-2019, "Performance Audit of Certain Thrift Savings Plan (TSP) Operations at the Defense Finance and Accounting Service", dated September 19, 2019. █ █ █ into █ in March 2019 to resolve the system error that resulted in the Blended Retirement System agency automatic 1% TSP contributions not being paid timely. We reviewed the █ that was approved to move this change into production. Additionally, during current year audit procedures we selected a sample of █ BRS participants. We noted the service's automatic 1% TSP contribution was made timely for the participants sampled.

Disposition: **Recommendation Closed.**

C. 2025 Findings and Recommendations

While conducting our performance audit over the TSP operations at DFAS, we identified three new findings and developed two related recommendations. EBSA requests appropriate and timely action for the recommendations.

FUNDAMENTAL CONTROL FINDING AND RECOMMENDATION

2025-01: Insufficient Documentation for Loan Payment Rejection and Error Reports

DFAS did not design and implement controls to review and maintain documentation related to loan rejections and errors. Specifically, during our control and compliance testwork for rejected loan payments and loan transaction errors, populations of such transactions were not provided for the scope period of January 1, 2024, to December 31, 2024.

The deficiencies occurred because a standard process was not in place to identify and document rejected TSP loan payments.

5 CFR 1655.14 states:

- (d) Subsequent [loan] payments are due at regular intervals as prescribed in the loan agreement, or most recent amortization, according to the participant's pay cycle.
- (e) In the case of a participant who has not separated from Government service, if a payment is not made when due, the TSP record keeper will notify the participant of the missed payment and the participant must make up the payment in full. The participant's make-up payment must be in the form of a check, guaranteed funds, or a one-time payment via loan direct debit from his or her personal savings or checking account. If the participant does not make up all missed payments by the end of the calendar quarter following the calendar quarter in which the first payment was missed, the TSP record keeper will declare the loan to be a deemed distribution in accordance with §1655.15(a). The declaration of a deemed distribution does not relieve the participant of his or her obligation to repay the amount.

(f) Interest will accrue on all missed payments and will be included in the calculation of any deemed distribution subsequently declared in accordance with §1655.15(a). Interest will also accrue on payments missed while a participant is in nonpay status and on any deemed distribution until it is repaid in full.

TSP Bulletin 05-16, *Processing Thrift Savings Plan Loan Payments in the TSP Record Keeping System*, Section II.B, Determining Breakage, states:

1. Loan payment records

If the loan payment record contains an “as of” date that is more than 30 days earlier than the current pay date reported on the header record, the TSP will calculate breakage based on the share prices for the fund(s) in which the participant would have invested on the “as of” date.

2. Late submissions

If loan payments on a journal voucher submission are posted more than 30 calendar days after the “current pay date” reported on the header record (and journal voucher), the submission is considered late. Generally, in cases of late submissions, the TSP will also calculate breakage on all current loan payments contained in the submission. The calculation will be based on the share prices for the fund(s) in which the participant would have invested on the reported current pay date.

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

10.03: Appropriate documentation of transactions and internal control: Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination... Documentation and records are properly managed and maintained.

1. DFAS should work with the Agency to enhance existing policies and procedures to obtain a population of rejected loan payments, and document rejected TSP loan payments.

Without proper controls to review and maintain documentation to support loan rejections and errors, an increased risk exists that loans and subsequent penalties for late payments are not

processed timely, accurately, or in accordance with applicable regulations which may result in breakage charges to participants.

OTHER CONTROL FINDING AND RECOMMENDATION

2025-02: Difference in Total Catch-Up Contributions

DFAS did not have sufficient controls in place over employee contributions. Specifically, during our compliance testwork over a sample of █ TSP participants that made catch-up contributions during the period of January 1, 2024, to December 31, 2024, we identified █ in which the participant's total catch-up contribution for 2024 did not agree with their TSP transaction history.

This matter occurred because in January 2025 a transaction in █ was triggered due to a special compensation indicator making the participant eligible for a change in basic pay effective November 8, 2024. The system executed a transaction to revise the basic pay. However, it also processed negative adjustments that shifted \$4,160.23 of the participant's TSP contributions for November and December 2024, to a different calendar year, January 2025.

5 USC 8432(f) states:

Amounts contributed by an employee or Member under subsection (a) and amounts contributed with respect to such employee or Member under subsection (c) shall be deposited in the Thrift Savings Fund to the credit of that employee's or Member's account in accordance with such procedures as the Secretary of the Treasury may, in consultation with the Executive Director, prescribe in regulations.

5 USC 8432(b)(1)(A)(ii) states:

An election to make contributions under this paragraph—

- (I) may be made at any time;
- (II) shall take effect on the earliest date after the election that is administratively feasible; and
- (III) shall remain in effect until modified or terminated.

GAO's *Standards for Internal Control in the Federal Government* states:

10.03: 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. The common control activity categories listed in figure 6 are meant only to illustrate the range and variety of control activities that may be useful to management. The list is not all inclusive and may not include particular control activities that an entity may need.

2. DFAS should design and implement a monitoring control over adjustments to catch-up contributions.

Without sufficient controls in place over employee contributions, there is an increased risk that contributions will not be recorded to the correct time period in the TSP system. Additionally, there is an increased risk that the participant will not be able to make contributions to the TSP up to the maximum annual contribution limit.

OTHER CONTROL FINDING WITHOUT A RECOMMENDATION

2025-03: Untimely Start of New Loan Payments

DFAS did not have sufficient controls in place over the start of new loan payments. Specifically, during our compliance testwork over a sample of █ TSP participants that initiated new loans during the period of January 1, 2024, to December 31, 2024, we identified █ in which the participant's first loan payment was not made on or before the 60th day following the loan issue date.

The deficiency occurred because DFAS did not timely start the loan transaction in █ for processing new loans initiated after the hold file date to meet the required initial payment date.

5 CFR 1655.14(c) states:

The initial payment on a loan is due on or before the 60th day following the loan issue date. Interest accrues on the loan from the date of issuance.

GAO's *Standards for Internal Control in the Federal Government* states:

10.03: 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.

For [REDACTED], the loan was submitted on the last business day of the month, subsequent to the hold file date to allow for the timely processing of the payroll. DFAS' payroll cycle occurs once a month for uniformed service members. We determined that the repayment for the loan was in process of being withheld from the member within 60 days but not remitted to the Agency until the 64th day after submission. As such, we did not consider a recommendation for DFAS necessary related to this finding.

D. Summary of Open Recommendations

2025 RECOMMENDATIONS

RECOMMENDATION TO ADDRESS FUNDAMENTAL CONTROL

Insufficient Documentation for Loan Payment Rejection and Error Reports

1. DFAS should work with the Agency to enhance existing policies and procedures to obtain a population of rejected loan payments, and document rejected TSP loan payments.

RECOMMENDATIONS TO ADDRESS OTHER CONTROLS

Difference in Total Catch-Up Contributions

2. DFAS should design and implement a monitoring control over adjustments to catch-up contributions.

DEFENSE FINANCE AND ACCOUNTING SERVICE'S RESPONSE



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, IN 46249-0201

DFAS- JJFJB

AUGUST 22, 2025

MEMORANDUM FOR DIRECTOR, U.S. DEPARTMENT OF LABOR, EMPLOYEE BENEFITS SECURITY ADMINISTRATION

SUBJECT: DFAS-ESS Military Pay Management Comments to KMPG LLP Performance Audit Draft report "Performance Audit of the Payroll Service Provider Thrift Savings Plan Operations at Defense Finance and Accounting Service, "(KPMG-DOL-TSP-2025), dated August 22, 2025.

In accordance with the subject audit, attached are management comments to the Draft report for recommendations 1 and 2.

My point of contact for additional information is Tracy Meyer, Director of Enterprise Standards and Solutions (ESS) for Military Pay, tracy.a.meyer8.civ@mail.mil.

VAN

Digitally signed by VAN

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Date: 2025.08.22 13:45:38 -04'00'

Catherine J. Van Hoesen
Director, Finance Standards and Customer Services

Attachment:
As stated

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DEFENSE FINANCE AND ACCOUNTING SERVICE'S RESPONSE, CONTINUED

Management Comments to Draft Report (MCD)

DFAS-ESS Military Pay Management Comments to KPMG LLP Performance Audit Draft report “Performance Audit of the Payroll Service Provider Thrift Savings Plan Operations at the Defense Finance and Accounting Service,” (KPMG-DOL-TSP-2025), dated August 22, 2025.

Recommendation 1: DFAS should work with the Agency to enhance existing policies and procedures to obtain a population of rejected loan payments, and document rejected TSP loan payments.

Management Comments: Concur. DFAS will work with the Agency to review and enhance the policies and procedures and implement a solution to be able to provide a population of rejected TSP loan payments.

Estimated Completion Date (ECD): September 30, 2026

Recommendation 2: DFAS should design and implement a monitoring control over adjustments to catch-up contributions..

Management Comments: Concur. DFAS will review the process over adjustments to catch- up contributions and consider implementing improvements where appropriate.

Estimated Completion Date (ECD): September 30, 2026

KEY DOCUMENTATION AND REPORTS REVIEWED

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

- Thrift Savings Plan (TSP) Bulletin 19-U-1, *Implementation of the Blended Retirement System*, dated May 17, 2019

- TSP Bulletin 05-16, *Processing Thrift Savings Plan Loan Payments in the TSP Record Keeping System*, dated November 8, 2005

- TSP Bulletin 05-8, *Thrift Savings Plan Employment Code*, dated July 19, 2005

- [REDACTED]

- [REDACTED]

- [REDACTED]

- Agency Organizational Chart as of December 31, 2024

- [REDACTED]

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

- Minutes of the meetings of the FRTIB that occurred, during the period of December 2023 through May 2025
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Defense Finance and Accounting Service (DFAS) Documents, Reports, and Sources

- DFAS payroll and personnel process flowchart as of February 2025
- DFAS Organizational Chart as of December 31, 2024
- System and Organizational Controls Report on *Delivery of Payroll Processing Services Provided by the Defense Finance and Accounting Service Military Pay Service* for the Period from 01 October 2023 to 30 June 2024
- *DFAS Military Pay Service Type 2 System and Organization Controls 1 report – Bridge Letter*
- Interconnection Security Agreement between Accenture Federal Services LLC and DFAS, as of November 15, 2023
- Electronic listing of transactions with rejection errors included in TSP 1701, *Error Reports*, during the period January 1, 2024, through December 31, 2024
- Electronic listing of all TSP 1702, *Payroll Office Recap of Journal Voucher Processing*, reports for US Army, US Navy, US Marine Corps, during the period January 1, 2024, through December 31, 2024
- TSP-U-1: *Election Form*, for selected participants, during the period January 1, 2024, through December 31, 2024
- TSP-U-1-C: *Catch-Up Contribution Election Form*, for selected participants that made catch-up contributions, during the period January 1, 2024, through December 31, 2024
- TSP-U-2-R: *Certification of Re-characterization of Records and Journal Voucher*, for selected participants, during the period January 1, 2024, through December 31, 2024
- TSP-U-2-L: *Certification of Transfer of Funds and Journal Voucher for Loan Payments*, for selected participants that made loan payments, during the period January 1, 2024, through December 31, 2024

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

- TSP 1701, *Error Reports*, for selected loan payments that were rejected during the period January 1, 2024, through December 31, 2024
- Reconciliation of DFAS Clearing Accounts to Treasury for US Army, US Navy, and US Marine Corps (Active Components) for selected 2024 months
- Electronic listing of all participant transactions from the [REDACTED] [REDACTED] for selected participants, during the period January 1, 2024, through December 31, 2024
- Electronic listing of all participant transactions from the [REDACTED] for selected participants, during the period January 1, 2024, through December 31, 2024
- TSP Leave and Earnings Statements for selected participants, during the period January 1, 2024, through December 31, 2024
- Master Military Pay Account screenprints for selected participants, during the period January 1, 2024, through December 31, 2024
- Official Personnel Files and equivalents for selected participants, during the period January 1, 2024, through December 31, 2024
- *SAAR System Authorization Access Request* User Access Forms for [REDACTED] for selected users, during the period January 1, 2024, through December 31, 2024
- User Request History Reports for selected users, during the period January 1, 2024, through December 31, 2024
- *Daily Production Support Checklist* for selected days, during the period January 1, 2024, through December 31, 2024
- TSP 31504, *Negative Adjustment Report*, for selected participants, during the period January 1, 2024, through December 31, 2024
- SF-50, *Notification of Personnel Action* for selected participants, during the period January 1, 2024, through December 31, 2024
- *Appointment of Cybersecurity Workforce* for selected users, during the period January 1, 2024, through December 31, 2024
- *Statement of Acceptance of Responsibilities, Information System Privileged Access Agreement and Acknowledgement of Responsibilities* for selected users, during the period January 1, 2024, through December 31, 2024
- 2024 Annual Administrative Account Reviews for [REDACTED] for the selected month, during the period January 1, 2024, through December 31, 2024