Employee Benefits Security Administration

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

As of September 27, 2012

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EXECUTIVE SUMMARY

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

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As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of the Thrift Savings Plan (TSP) plan administration and procurement processes and certain TSP investment processes at the Federal Retirement Thrift Investment Board (the Board) Administrative Staff (Agency). Our fieldwork was performed from July 9, 2012 through September 27, 2012, primarily at the Agency's headquarters in Washington, D.C. Our scope period for testing was January 1, 2011 through June 30, 2012.

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

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

- Determine if the Agency implemented certain procedures to: (1) monitor the authorization and reasonableness of administrative expenses; (2) procure quality goods and services, at favorable prices, in accordance with federal regulations; (3) maintain a code of conduct for the procurement function; (4) monitor the receipt of services; (5) accurately record investment activity in the accounting records; (6) calculate the daily value of each fund's investments based on the net yield of the investments, less authorized administrative expenses, commissions, and fees; (7) monitor investment operations and prescribe regulations over the authorization of administrative expenses for investment management activities; and (8) monitor investment results and maintain policies to provide retirement benefits to participants and beneficiaries in accordance with federal law.

- Test compliance with 5 USC 8439(a)(3), 5 USC 8474(b)(5), 5 USC 8477(b), 5 USC 8477(c), and 5 USC 8475 (hereinafter referred to as FERSA);
- Determine if the Agency developed and implemented corrective action plans addressing the February 2012 Civil Service Retirement System (CSRS) forfeiture processing error; and
- Determine the status of the prior EBSA TSP open recommendation reported in *Review of the Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff, October 24, 2007*.

Our audit resulted in four new recommendations related to the Agency's TSP plan administration and procurement processes, three addressing fundamental controls and one 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. Section III.C presents the details that support the current year findings and recommendations.

Based upon the performance audit procedures performed and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2011 through June 30, 2012 the Agency implemented certain procedures to (1) monitor the authorization and reasonableness of administrative expenses; (2) procure quality goods and services, at favorable prices, in accordance with federal regulations; (3) maintain a code of conduct for the procurement function; (4) monitor the receipt of services; (5) accurately record investment activity in the accounting records; (6) calculate the daily value of each fund's investments based on the net yield of the investments, less authorized administrative expenses, commissions, and fees; (7) monitor investment operations and prescribe regulations over the authorization of administrative expenses for investment management activities; and (8) monitor investment results and maintain policies to provide retirement benefits to participants and beneficiaries in accordance with federal law. However, we noted internal control weaknesses in certain areas that could adversely affect the Agency's TSP plan administration and procurement processes. As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA.

Additionally, as a result of our audit procedures, we determined that the Agency developed and implemented corrective action plans addressing the February 2012 CSRS forfeiture processing error.

We also reviewed one prior EBSA TSP recommendation to determine its current status. This prior year recommendation was reported in the *Review of the Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff, October 24, 2007.* Section II.B documents the status of this prior recommendation. In summary, the one recommendation has been closed.

The Agency's responses to the recommendations, including the Executive Director's formal reply, are included as an appendix within the report (Appendix A). The Agency concurred with all recommendations.

This performance audit did not constitute an audit of the TSP's financial statements in accordance with *Government Auditing Standards.* KPMG was not engaged to, and did not render an opinion on the Agency's internal controls over financial reporting or over financial management systems (for purposes of the Office of Management and Budget's Circular No. A-127, *Financial Management Systems*, July 23, 1993, as revised). 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.

KPMG LLP

March 12, 2013

I. BACKGROUND OF THE TSP AND THE TSP ADMINISTRATIVE OPERATIONS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System (FERS) and provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. For FERS participants, the TSP also provides agency automatic 1 percent and matching contributions. The TSP began accepting contributions on April 1, 1987, and as of September 30, 2012, had approximately $326 billion in assets and approximately 4.6 million participants[1].

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

B. Overview of the TSP Administrative Operations

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

1. Investment Process[2]

FERSA, as amended, requires the TSP to offer five investment options: Government Securities Investment Fund (G Fund), Fixed Income Index Investment Fund (F Fund), Common Stock

[1] Source: Minutes of the October 22, 2012 Federal Retirement Thrift Investment Board meeting, posted on www.frtib.gov.
[2] Sources: Agency Policies and Procedures Manual, Sections IN-1 dated November 15, 2010, IN-2 dated December 1, 2010, and AMI-1, dated July 9, 2012.

Index Investment Fund (C Fund), Small Capitalization Stock Index Fund (S Fund), and International Stock Index Investment Fund (I Fund). Participants may also choose to invest their contributions in the Lifecycle Funds (L Funds), which are portfolio funds comprised of the G, F, C, S, and I Funds that use professionally designed investment mixes (allocations) tailored to five different time horizons.

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

G Fund

The Secretary of the U.S. Department of the Treasury (Treasury) is required by FERSA to issue special non-marketable interest-bearing obligations of the United States for purchase by the TSP for the G Fund. Such obligations are to have fixed maturities as determined by the Executive Director and are to bear interest at a rate equal to the average market yield (computed by the Secretary of the Treasury) on the basis of market quotations as of the end of the calendar month preceding the date of issue of the obligations.

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

Each day the Accounting Division calculates the G Fund investment amount using the Cash Flow Investment System. The Accounting Division reviews the calculated investment amount and then submits an investment purchase request to the Treasury using FedInvest[3]. Once the request is submitted, FedInvest produces an electronic confirmation with the details of the investment purchase. The Accounting Division then reconciles the confirmation to its records.

F, C, S, and I Funds

FERSA requires the Board to develop prudent investment policies which provide opportunities to accumulate retirement income while incurring low administrative costs. To the extent

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

required by FERSA, the Agency diversifies the investments of the funds so as to minimize the risk of large losses, unless under the circumstance it is clearly prudent not to do so.

The U.S. Code requires the F Fund to be invested in one or all of the following: 1) insurance contracts; 2) certificates of deposits; or 3) other instruments or obligations selected by qualified professional asset managers. As such, the Agency has chosen to invest the F Fund contributions in a portfolio that consists of U.S. Government, corporate, foreign government and mortgage-backed securities.

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

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

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

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

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

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

BTC's Client Reporting Group sends investment statements for the F, C, S, and I Funds to the Office of Financial Management on a daily basis. The investment statements detail the market and book values of day's-end investment balances, investment transactions, and the earnings on investments. The Agency reconciles this summary to the TSP accounting records.

L Funds

As discussed above, the L Funds diversify participant accounts among the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to five different time horizons. The L Funds are automatically re-balanced by the TSP system to their target allocations each business day. The investment mix of four of the five funds adjusts quarterly to more conservative investments as the fund's time horizon shortens. These quarterly adjustments are pre-determined based on the fund design and are reviewed for reasonableness at least annually by both the Office of Investments and an investment consulting firm. The asset allocations are based on consulting firm's economic assumptions regarding future investment returns, inflation, economic growth, and interest rates. The consulting firm reviews these assumptions at least annually and determines whether changes to the allocations are warranted.

The administrative expenses associated with the L Funds are those of the underlying G, F, C, S, and I Funds, calculated by the Accounting Division in proportion to their allocations in each L Fund. The L Funds do not have any additional significant expenses.

Calculation of Daily Value of Investments

Each investment fund is valued at the end of each business day, and share prices are calculated for the purpose of processing participant/account transactions. Share prices are calculated in the Asset Manager Interface (AMI), which receives inputs for shares outstanding, market earnings, GSIF interest, and accrued expenses. Share prices are truncated to the nearest one-cent, and the unallocated residual is held for inclusion in the next day's share price.

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

2. Procurement Process[4]

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

The Agency does not create Advance Procurement Plans. When an acquisition plan is deemed necessary, the Procurement Office works directly with the Program Offices to develop the plan. The plan is created manually based on the needs of the acquisition.

[4] Source: Agency's Procurement Business Process Analysis dated March 22, 2012

The Standard Requisition is utilized when the other requisition types are not appropriate. The processing of a requisition or a requisition amendment follows the same process.

Items that are less than or equal to $10,000 can be purchased by the purchasing officer with an Agency issued credit card. However, if the amount is greater than $3,000, price comparisons must be made and the lowest cost selected. In the case of purchases over $10,000 but less than $100,000, a requisition must be completed and proper approvals received. Purchases of amounts greater than $100,000 are subject to competitive bidding, unless the Agency grants, and can justify, issuing a "sole-source" contract.

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

If in the process of approving a requisition, the Director determines that insufficient funds exist in the initially selected budget category, he/she has the authority to redistribute funds that have been allotted to his/her office's budget. However, the Director is unable to requisition goods and services in amounts that exceed his/her office's total budget unless given approval by the Executive Director to transfer funds from another office's budget.

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

The responsibility to monitor contracts is the responsibility of the respective CO. Paper records and equivalent electronic data records are maintained at the Agency's offices at least as long as provided for in the Federal Acquisition Regulations (FAR). After expiration of the prescribed time periods, the CO, with the approval of the Director of Office of Resource Management – Administration Division, may elect to destroy or remotely archive such records.

3. Disbursement Process[5]

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

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

Upon approval by the Director of the requisitioning office, invoices are sent to the Accounting Division for additional review. From OTIS, the Accounting Division prepares a transmittal letter containing a detailed record of all amounts to be deposited and paid. The Accounting Division also includes the certified vendor invoices along with the transmittal letter. The Accounting Division emails the transmittal package to IBC. IBC then reviews the transmittal

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

package and processes the obligating documents and invoices to ensure payments are made within 30 days of receipt.

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

Agency employees are paid bi-weekly through the use of the IBC's Federal Personnel Payroll System (FPPS). FPPS is an electronic, time and attendance and employee leave-reporting system, which reports payroll information to IBC. At the end of every payroll period, the office timekeepers are responsible for certifying base schedules within FPPS for their respective offices. The timekeepers are responsible for tracking time daily for employees in their office using the QuickTime system. Office Directors review and certify the time schedules for each office, and a designated alternate reviews and certifies the Office Directors' time schedules. Upon approval of the time schedules, they are electronically submitted to IBC for each employee.

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

Agency disbursements processed by IBC during the month are listed on the Monthly Statement of Transaction (SF-224) by the Accounting Division and are reconciled to the accounting records and the Government Online Accounts Linking System and the Intra-Governmental Payment and Collection system by both IBC and an Agency accountant.

4. Budgeting Process[6]

The budget formulation process for the various Agency offices begins in June or July for the subsequent fiscal year. The offices are asked to submit budget information via OTIS. The

[6] Source: Agency's Budget Directive, dated September 22, 2011

Office of Financial Management compiles all of the offices' budget information and submits a draft to the Executive Director for approval along with a cover sheet that includes percentage changes between the proposed budget and the prior year approved budget. The Executive Director questions individual Office Directors on specific expense items as necessary. Once the Executive Director is satisfied with the contents of the proposed budget, he submits it, along with an attached memorandum describing the basis for certain assumptions made about financial needs in the upcoming year, to the Board for approval. The Board's budget vote generally occurs at the September Board meeting for the fiscal year beginning October 1.

During the year, as funds are obligated, office obligations are monitored by the Office Directors using OTIS to ensure they do not exceed the budget. In those cases where an obligation is needed but office funds are insufficient, the Executive Director must authorize the obligation. Additionally, the Executive Director semi-annually performs a review of each office's budgetary status to determine if current resource levels are adequate and that resources are being used appropriately.

5. Personnel Data[7]

The Agency has also contracted with IBC to maintain employee personnel files. Once an individual is hired by the Agency, the new employee completes all the necessary paperwork and submits it to IBC. Functions performed by the Human Resources Division at the Agency include recruitment and staffing, developing position descriptions and classifications, overseeing employee relations, coordinating training needs, and generating internal personnel policy recommendations. IBC serves as the Agency's liaison with the Office of Personnel Management.

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

II. OBJECTIVE, SCOPE AND METHODOLOGY

A. Objective

The U.S. Department of Labor (DOL), Employee Benefits Security Administration (EBSA) engaged KPMG LLP (KPMG) to conduct a performance audit of the Thrift Savings Plan (TSP) plan administration and procurement processes and certain TSP investment processes at the Federal Retirement Thrift Investment Board (the Board) Administrative Staff (Agency).

The specific objectives of this engagement were to determine whether:

- Determine if the Agency implemented certain procedures to: (1) monitor the authorization and reasonableness of administrative expenses; (2) procure quality goods and services, at favorable prices, in accordance with federal regulations; (3) maintain a code of conduct for the procurement function; (4) monitor the receipt of services; (5) accurately record investment activity in the accounting records; (6) calculate the daily value of each fund's investments based on the net yield of the investments, less authorized administrative expenses, commissions, and fees; (7) monitor investment operations and prescribe regulations over the authorization of administrative expenses for investment management activities; and (8) monitor investment results and maintain policies to provide retirement benefits to participants and beneficiaries in accordance with federal law.
- Test compliance with 5 USC 8439(a)(3), 5 USC 8474(b)(5), 5 USC 8477(b), 5 USC 8477(c), and 5 USC 8475 (hereinafter referred to as FERSA);
- Determine if the Agency developed and implemented corrective action plans addressing the February 2012 Civil Service Retirement System (CSRS) forfeiture processing error; and
- Determine the status of the prior EBSA TSP open recommendation reported in *Review of the Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff, October 24, 2007*.

B. Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was January 1, 2011 through June 30, 2012.

During the scope period, a significant TSP processing error occurred. On February 8, 2012, erroneous manual adjustments to certain CSRS forfeiture cases were processed, resulting in the creation of approximately $6.6 billion worth of shares in the TSP recordkeeping system across 11 investment funds. The creation of erroneous shares did not create a direct investment impact because the Office of Financial Management - Accounting Division detected the error the following day during routine reconciliations and did not capture such erroneous entries in the investment fund accounting. However, the addition of approximately $6.6 billion of unfunded transactions did result in an incorrect input into the calculation of the TSP daily share prices. A corrected reversal entry was tested and included on the February 10, 2012 nightly processing cycle, and an adjustment of approximately $35.5 million was made on February 15, 2012 to account for the effect of the incorrectly calculated TSP daily share prices.[8] As a result, EBSA requested that this performance audit's scope include an audit objective related to corrective actions taken to address this error.

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

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

During the testing and interviewing phase, we conducted interviews, collected and inspected auditee-provided documentation and evidence, participated in process walk-throughs, and designed and performed tests of controls and compliance. We conducted these test procedures primarily at the Agency's headquarters in Washington, DC. 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 non-statistical samples of the following:

- Number of months to inspect tracking error reports for the Fixed Income Index Investment Fund, Common Stock Index Investment Fund, International Stock Index Investment Fund, and Small Capitalization Stock Index Fund, to determine if the Agency monitored the tracking error for the respective indices;

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[8] Source: Memo from After Action Team, to Greg Long, Executive Director, regarding the After Action Interim Report on the February 8, 2012, CSRS Forfeiture Transactions that Resulted in a $6.6 Billion Record Keeping Error, dated February 23, 2012

- Number of days to inspect supporting documentation related to transfers to or withdrawals from the investment manager, to determine whether the transactions were placed accurately and timely and were accurately reported;
- Number of days to inspect the calculation of earnings to be allocated to each TSP investment fund, to determine whether the details of the calculations were properly supported and reported to the TSP system timely;
- Contracts for professional services, to determine whether the procurement was completed in accordance with the Agency's procurement procedures and Federal Acquisition Regulations and to determine whether contractor performance was monitored throughout the scope period;
- Procurements for specific quantities of products in excess of $50,000, to determine whether the procurement was completed in accordance with the Agency's procurement procedures and Federal Acquisition Regulations;
- Disbursements, to determine if the expense was reasonable and necessary in the administration of the TSP;
- New employees and employees in key positions that required reinvestigation, to determine if an appropriate background check was performed;
- New employees, to determine if they met the minimum qualifications for their position; and
- Employees that separated from the Agency, to determine if the separation was timely processed in accordance with Agency procedures.

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

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

III. FINDINGS AND RECOMMENDATIONS

A. Introduction

We performed procedures related to the Thrift Savings Plan (TSP) plan administration and procurement processes and certain TSP investment processes while conducting a performance audit at the Federal Retirement Thrift Investment Board (the Board) Administrative Staff's (Agency) headquarters. Our scope period for testing was January 1, 2011 through June 30, 2012. 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 performed and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2011 through June 30, 2012 the Agency implemented certain procedures to (1) monitor the authorization and reasonableness of administrative expenses; (2) procure quality goods and services, at favorable prices, in accordance with federal regulations; (3) maintain a code of conduct for the procurement function; (4) monitor the receipt of services; (5) accurately record investment activity in the accounting records; (6) calculate the daily value of each fund's investments based on the net yield of the investments, less authorized administrative expenses, commissions, and fees; (7) monitor investment operations and prescribe regulations over the authorization of administrative expenses for investment management activities; and (8) monitor investment results and maintain policies to provide retirement benefits to participants and beneficiaries in accordance with federal law However, we noted internal control weaknesses in certain areas that could adversely affect the Agency's TSP plan administration and procurement processes. As a result of our compliance testing, we did not identify any instances of noncompliance with 5 United States Code (USC) 8439(a)(3), 5 USC 8474(b)(5), 5 USC 8475, 5 USC 8477(b), 5 USC 8477(c).

As a result of our audit procedures, we determined that the Agency developed and implemented corrective action plans addressing the February 2012 Civil Service Retirement System forfeiture processing error.

We present four new recommendations, three addressing fundamental controls over the Agency's TSP plan administration and procurement processes, and one addressing other controls over the TSP plan administration. 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 Agency's TSP plan administration and procurement processes. The Agency should review and consider these recommendations for timely implementation. The Agency's responses to these recommendations are included as an appendix within this report (Appendix A).

We also reviewed one prior U.S. Department of Labor Employee Benefits Security Administration (EBSA) TSP recommendation, identified in Section III.B, to determine its current status. This prior year recommendation was reported in the *Review of the Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff, October 24, 2007.* Section III.B documents the status of the prior recommendation. In summary, the recommendation has been closed.

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

2007 Federal Retirement Thrift Investment Board Administrative Staff Recommendation No. 1:

Original Recommendation: To strengthen information security over laptops and portable devices, the Agency should:

a) Encrypt all hard drives on laptops issued by the Agency.
b) Enforce the use of virus screening on all external laptops and portable devices prior to being allowed connection to the Agency's network.
c) Evaluate the use of cable locks and other anti-theft techniques for Agency-issued laptops.
d) Consider strengthening the password composition rules for portable devices.

e) Finalize and disseminate the Personally Identifiable Information (PII) Incident Response and Notification Plan.

Reason for Recommendation: The Agency controls the manner by which laptops and portable devices are distributed and accessed through various operational and technical controls. However, based on our 2007 review of the Agency's procedures and our comparison of them to National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Recommended Security Controls for Federal Information Systems*; certain Office of Management and Budget (OMB) Memorandums; and U.S. Department of Labor Employee Benefits Security Administration (EBSA) Notice 06-11, *Personally Identifiable Information on Portable Computer Equipment*, we noted that improvements could be made over these practices.

Status: **Implemented**

Parts a, b, c, and d of the original recommendation were closed in the report entitled *Performance Audit of the Computer Access and Technical Security Controls over the Thrift Savings Plan System, as of October 7, 2009*; therefore, they were not included in the scope of our 2012 performance audit.

Regarding part e, the Agency completed the PII Incident Response and Notification Plan, which requires that incidents involving PII be reported immediately to the Incident Response Team. This policy has been finalized, approved, and implemented by management as of June 29, 2012. As a result, this portion of the recommendation is closed.

Disposition: **Recommendation Closed**

C. 2012 Findings and Recommendations

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

RECOMMENDATIONS TO ADDRESS FUNDAMENTAL CONTROLS

Insufficient Performance of Budget Review and Estimates Analysis

We noted that the Agency performs the Budget Review and Estimates analysis on a semi-annual basis. However, based on the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the Standards) and leading practices, we consider the frequency of this review process to be insufficient to properly monitor the budget. This deficiency occurred because the Agency did not develop and implement formal policies or procedures which outlined the frequency at which the Budget Review and Estimates analysis should be performed.

The Standards states the following:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available or examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form.

The Standards also states:

> Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:
>
> - Effectiveness and efficiency of operations including the use of the entity's resources.
> - Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use.
> - Compliance with applicable laws and regulations.

1. The Agency should develop and implement formal policies and procedures to perform a budget to actual expenditure analysis on a more frequent basis than semi-annually.

Implementation of this recommendation would assist the Agency in monitoring expenditures on a timelier basis, which will allow for better management of expenditures in line with the budget.

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

Of the six sole source contracts selected for testwork that were awarded during the period of January 1, 2011 to June 30, 2012:

- The Agency did not provide evidence that the Justification for Other Than Full and Open Competition Analysis had been performed prior to awarding the sole source contract for one contract.
- The Justification for Other Than Full and Open Competition Analysis was not adequately supported for five contracts. These sole source contracts were awarded based on FAR 6.302-1 - "Only one responsible source and no other supplies or services will satisfy agency requirements." Agency support for the lack of full and open competition prior to the award of the respective contracts only indicated the following:

  - Determination that previously contracted firms had extensive knowledge or past experience and therefore were considered to provide services available from one responsible source; and

  - Determination that awarding to any other source would result in substantial duplication of cost to the Government that was not expected to be recovered through competition and unacceptable delays in fulfilling the Agency's requirements.

These deficiencies occurred because the Agency lacked adequate staffing in the Office of Financial Management – Procurement Division and did not timely plan its procurement activities for a full and open competition. In addition, current Agency policies and procedures did not provide specific guidance regarding adequate supporting documentation for sole source acquisitions.

FAR 6.303-2(b), which addresses the requirements for the justification for other than full and open competition, states:

> …(5) A demonstration that the proposed contractor's unique qualifications or the nature of the acquisition requires use of the authority cited. (6) A description of efforts made to

ensure that offers are solicited from as many potential sources as is practicable, including whether a notice was or will be publicized as required by Subpart 5.2 and, if not, which exception under 5.202 applies…(8) A description of the market research conducted (see Part 10) and the results or a statement of the reason market research was not conducted. (9) Any other facts supporting the use of other than full and open competition, such as: …(ii) When 6.302-1 is cited for follow-on acquisitions as described in 6.302-1(a)(2)(ii), an estimate of the cost to the Government that would be duplicated and how the estimate was derived, (iii) When 6.303.-2 is cited, data, estimated cost, or other rationale to the extent and nature of the harm to the Government.

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

Implementation of this recommendation would assist the Agency in fully complying with applicable provisions of the FAR.

Lack of Required Financial Disclosure Forms for Federal Retirement Thrift Investment Board (Board) Member

For one of five Board members active as of June 30, 2012, the U.S. Office of Government Ethics (OGE)-450 Confidential Financial Disclosure Report form had not been filed since 2009. Because this Board member wants to resign from his position, he has voluntarily not filed the required disclosure forms. The President has not nominated and the Senate has not confirmed a replacement Board member to take his position.

According to 5 Code of Federal Regulations (CFR) Part 2634, the OGE-450 form is required to be completed and submitted annually. In addition, according to 5 United States Code 8472, the term of any Board member shall not expire before the date on which the member's successor takes office.

3. The Agency should make additional efforts to obtain the currently overdue OGE-450 forms.

Implementation of this recommendation would assist the Agency in fully complying with the CFR.

OTHER CONTROL RECOMMENDATION

<u>Lack of Communication of Formal Policies and Procedures over the Annual Budget Process</u>

At the beginning of our 2012 performance audit procedures, we requested that the Agency provide us with its formal policies and procedures related to preparation of the annual budget. However, formal policies and procedures in place to address the activities taken by the Office of Financial Management the review procedures and individuals responsible for reviewing, and the due dates were not provided to us until initial findings were communicated after planned completion of fieldwork. As such, we did not consider these formal policies and procedures to be readily available for inspection and use. Insufficient internal communication of these formal policies and procedures likely caused this situation.

The Standards states the following:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form.

4. The Agency should improve the internal communication of formal policies and procedures for the preparation of the annual budget to ensure they are readily available for use within the organization.

Implementation of this recommendation would assist the Agency in ensuring that budget responsibilities and timing are readily available to all impacted individuals.

D. Summary of Open Recommendations

2012 RECOMMENDATIONS

FUNDAMENTAL CONTROL RECOMMENDATIONS

1. The Agency should develop and implement formal policies and procedures to perform a budget to actual expenditure analysis on a more frequent basis than semi-annually.

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

3. The Agency should make additional efforts to obtain the currently overdue OGE-450 forms.

OTHER CONTROL RECOMMENDATION

4. The Agency should improve the internal communication of formal policies and procedures for the preparation of the annual budget to ensure they are readily available for use within the organization.