



**Employee Benefits Security Administration**

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

**As of November 9, 2011**

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## **EXECUTIVE SUMMARY**

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Washington, D.C.**

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As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of the Thrift Savings Plan (TSP) withdrawals process. Our fieldwork was performed from April 4, 2011 through November 9, 2011, primarily at the Federal Retirement Thrift Investment Board's (the Board) Staff (Agency) headquarters in Washington, D.C. Our scope period for testing was January 1, 2010 through December 31, 2010, except for our testing related to required minimum distributions, which was January 1, 2010 through April 30, 2011.

We conducted this performance audit in accordance with the standards applicable to such audits 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 engagement is defined in the EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, and applicable Board regulations and bulletins. The detailed objectives of this engagement are enumerated within Section I.A.

The audit included assessing the TSP withdrawals process to determine if (1) TSP withdrawal transactions were processed promptly and accurately in individual participant accounts, (2) withdrawal and death benefit payments were processed in accordance with regulations and participant authorization, and (3) withdrawal activity was accurately recorded in the TSP accounting records. In addition, we determined the status of the prior EBSA TSP recommendations and assessed compliance of the TSP withdrawals process with FERSA and applicable Board regulations and bulletins. We also determined if corrective action plans

addressing the December 2010 erroneous required minimum distribution (RMD) incident<sup>1</sup> were developed and implemented by the Agency.

We conclude that for our scope period the TSP withdrawals process complied with FERSA, as amended, and with applicable Board regulations and bulletins except for certain elements of the following provisions:

- Title 5 of the United States Code (USC) section 8433(e) (5 USC 8433(e)) and Code of Federal Regulations (CFR), Title 5, Part 1651.19 (5 CFR 1651.19), which describe the requirements for TSP beneficiary participant accounts (BPA);
- 5 CFR 1650.16, which describes the Agency's requirements for notifying TSP participants of account abandonments;
- 5 CFR 1653.4, which describes the requirements for calculating a payee's entitlement for court order awards; and
- 5 USC 8440, which requires the Thrift Savings Fund to be treated as a trust described in section 26 USC 401, which describes the requirements regarding when required distributions must be paid.

We also noted that the Agency implemented certain procedures to (1) process TSP withdrawal transactions promptly and accurately in individual participant accounts, (2) process withdrawal and death benefit payments in accordance with regulations and participant authorization, and (3) accurately record withdrawal activity in the TSP accounting records. In addition, the Agency has developed corrective action plans to address the December 2010 RMD incident. However, we noted internal control weaknesses in certain areas that could adversely affect this TSP process.

We present five new recommendations related to the TSP withdrawals process, four 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. All recommendations are intended to strengthen the TSP withdrawals process. The Agency should review and consider these recommendations for timely implementation. The

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<sup>1</sup> In late December 2010, the Agency incorrectly processed RMDs for certain participants who had either not yet reached their RMD eligibility date or whose RMD was not required to be paid until March 2011.

Agency's responses to these recommendations are included as an appendix within this report (Appendix D).

We also reviewed four prior TSP recommendations to determine their current status. These prior year recommendations were reported in the *Review of the Thrift Savings Plan Withdrawals Process, August 24, 2005*. Section III.B documents the status of these prior recommendations. In summary, two of the recommendations have been closed, one recommendation has been partially implemented and remains open, and one recommendation has not been implemented and remains open.

Section I of this report discusses the EBSA's objectives, scope and methodology, and report organization for this performance audit. Section II is an overview of the TSP, the Service Providers, the Federal Agencies and Uniformed Services, and the TSP post-separation withdrawals and in-service withdrawals processes. Section III presents the details that support the current year findings and recommendations. In Appendices A and B, we identify the key personnel with whom we met and documentation provided by Agency personnel that we reviewed during our performance audit. We discussed our recommendations with the appropriate Agency representatives (Appendix C). Final Agency comments, including the Executive Director's formal reply, are included as an appendix within the report (Appendix D). 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**

February 14, 2012

## **I. INTRODUCTION**

### **A. Objective**

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

The specific objectives of this engagement were to determine whether:

- TSP benefit payments were properly processed based upon participant authorizations and comply with Federal Employees' Retirement System Act of 1986 (FERSA), as amended, provisions;
- Participants withdrew their accounts or began receiving benefit payments through an annuity by April 1 of the year following the year in which the participant became 70 1/2 and was separated from government service;
- The Federal Retirement Thrift Investment Board's Staff (Agency) sent notices of action to participants whose TSP accounts were not withdrawn in accordance with FERSA and properly abandoned their accounts in accordance with the Code of Federal Regulations (CFR), if the participant did not take appropriate withdrawal action;
- Withdrawal transactions for married participants were properly processed in accordance with the spousal rights requirements contained in FERSA;
- In-service withdrawals (i.e., financial hardship and age-based withdrawals) were properly processed in accordance with FERSA and the CFR;
- Death benefit payments were properly disbursed to the individual or individuals surviving the participant in accordance with FERSA;
- After December 19, 2010, TSP beneficiary participant accounts were properly established for eligible spousal beneficiaries, and the related death benefits were accurately and timely deposited into the accounts;
- The Agency complied with court orders related to participants' accounts that were determined to be valid;
- The Agency monitored withdrawal operating results and established procedures and controls to accurately and timely process withdrawal transactions;
- All withdrawal activity was properly recorded in the underlying accounting records;
- Corrective action plans addressing the December 2010 erroneous required minimum distribution (RMD) incident were developed and implemented; and

- The Agency completed corrective action related to the prior year TSP withdrawal findings and recommendations.

## **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 EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. In particular, we conducted our engagement as a performance audit defined by *Government Auditing Standards* as "an objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability." We performed our engagement 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.

Our performance audit procedures included testing a statistical sample of the following:

- Post-separation withdrawals, to determine if (1) post-separation withdrawals were processed in a timely manner, (2) all necessary documentation, per type of withdrawal (e.g., automatic cash-out, partial withdrawal, single payment, monthly payment, mixed withdrawal, and annuity) was properly completed before a withdrawal was processed, and (3) the withdrawal amount was proper and distributed to the proper payee;
- In-service withdrawals, to determine if (1) in-service withdrawals were processed in a timely manner, (2) all necessary documentation, per type of in-service withdrawal (e.g., age-based or financial hardship) was properly completed before an in-service withdrawal was



processed, and (3) the in-service withdrawal amount was proper and distributed to the proper payee;

- Court orders and death benefit payments, to determine if (1) court order and death benefit payments were processed in a timely manner, (2) all necessary documentation was properly completed before a withdrawal was made, and (3) the withdrawal amount was proper and distributed to the proper payee;
- Erroneous RMDs processed in December 2010, to determine if participants were notified of the incident and if accounts were accurately restored to the proper levels or taxable distributions were declared;
- Returned withdrawal checks/electronic funds transfers (EFTs), to determine if withdrawal checks and EFTs returned to the TSP were investigated and reissued in a timely manner; and
- Forfeitures of abandoned accounts, to determine if (1) the appropriate notices were sent to the participant in a timely manner prior to the account being abandoned and (2) funds from abandoned accounts were only invested in the TSP's Government Securities Investment Fund.

The objective of this statistical testing was to estimate the error rate for the population, as applicable, based on the error rate for a selected sample of such transactions.

Additionally, our performance audit procedures included testing non-statistical samples of the following:

- Participants age 70½ or older in calendar year 2009, to determine if (1) RMDs were processed timely for selected participants who had met age limit and employment status requirements, (2) RMDs were properly calculated, and (3) participant accounts, as appropriate, were properly abandoned and forfeited;
- Participants age 70½ or older in calendar year 2011, to determine if the appropriate participants were properly notified in a timely manner of the requirements to begin withdrawing their TSP account balance; and
- Spousal beneficiary participant accounts, to determine if accounts were established timely and for appropriate individuals.

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 (Appendix C), providing a formal draft report to the Agency for comment, and preparing and issuing the final report.

### **C. Organization of Report**

Section II includes an overview of the TSP organizational responsibilities, TSP post-separation withdrawal and in-service withdrawal requirements, and related statistical information. Section III presents a detailed discussion of all recommendations.

## **II. OVERVIEW OF THE WITHDRAWALS PROCESS**

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

Public Law (P.L.) 99-335, the Federal Employees' Retirement Systems Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is a basic component of the Federal Employees' Retirement System (FERS) and provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. For FERS participants, the TSP also provides agency automatic 1 percent and matching contributions. The TSP began accepting contributions April 1, 1987, and as of September 30, 2011, had approximately \$273 billion in assets and approximately 4.5 million participants<sup>2</sup>.

The FERSA also established the Federal Retirement Thrift Investment Board (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 (Agency) is responsible for administering TSP operations.

### **B. The TSP Service Providers**

Several organizations provide significant TSP services for the Agency under a contract or Memorandum of Understanding (MOU). These organizations provide maintenance and operations support and disaster recovery capability for the TSP record keeping system (TSP system), certain record keeping services, call center services, and other services. These record keeping services include establishing and maintaining individual TSP participant accounts and generating reports for all payroll offices so that they can reconcile the information processed by the TSP system with information in their systems and correct transactions rejected by the TSP system.

The TSP, through its service providers, is also responsible for processing withdrawal and loan requests, disbursing participant TSP loans, and processing loan payments withheld from participants' pay by the participants' payroll office.

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<sup>2</sup> Source: Minutes of the October 17, 2011 Federal Retirement Thrift Investment Board Meeting, posted on [www.frtib.gov](http://www.frtib.gov)

Participants formally receive quarterly statements of TSP account activity from the TSP, through its service provider, electronically (default) or via hard copy (upon request). In addition, all participants receive an annual participant statement through the mail unless they opt out of the service. It is each participant's responsibility to determine that his/her TSP account activity is correct.

When participants retire or transfer, their employing agency or service is responsible for reporting the change in employment status to the TSP. Separated participants inform the TSP directly of other changes in circumstances, such as address or marital status. Additionally, such participants should contact the TSP if questions arise.

### **C. The Federal Agencies and Uniformed Services**

Federal agencies and the uniformed services have a responsibility to provide timely and accurate participant account information to the TSP. As part of this responsibility, agencies and services provide, receive, and process participant contributions election forms. Federal agencies and services calculate employee and agency contributions and process deductions from employees' pay for contributions and loan payments. Information for all active, recently separated, and transferred participants is submitted primarily electronically to the TSP each payroll period.

Federal agency payroll offices and uniformed services are also required to submit an Employee Data Record (06-Record) containing an appropriate separation code and date to the TSP when an employee or member separates from government service. The separation code and date provides the TSP system with information necessary to complete the processing of TSP withdrawals. Federal agency personnel offices and uniformed services are also responsible for distributing withdrawal forms or information to participants. Participants can also obtain forms and publications from the TSP website, ThriftLine, or a TSP Participant Support Representative (PSR).

## **D. TSP Withdrawal Requirements**

### *Eligibility to Remain in the TSP<sup>3</sup>*

If a separated participant's vested account balance is \$200 or more, the participant can opt to leave the entire balance in the TSP. The account will continue to accrue earnings, and the separated participant can make interfund transfers. However, the participant cannot borrow from the account. Additionally, while contributions are no longer accepted, the separated participant can transfer funds into the TSP from a traditional Individual Retirement Account (IRA) or an eligible employer plan. The funds are distributed among the TSP investment funds according to the participant's most recent contribution allocation request on file. Participants are required to begin withdrawals from their accounts by April 1 of the later of a) the year following the year the participant becomes age 70 1/2, or b) the year following the year the participant separates from Federal service or the uniformed services.

### *TSP Post-Separation Withdrawals*

#### Automatic Cash-outs<sup>4</sup>

If a participant's vested account balance is less than \$200 but more than \$4.99, the balance is automatically paid directly to the participant in a single payment. No notification is made prior to the disbursement and completion of the Form TSP-70<sup>5</sup>, *Request for Full Withdrawal*, is not required. The account balance is paid automatically after the "separated" employment code is received from the agency and the participant is separated for more than 31 days. The TSP will not withhold any amount for Federal income tax if the total withdrawals from the account throughout the year of the cash-out add up to less than \$200. Account balances of \$4.99 or less are forfeited to the TSP; however, participants can request restoration and payment of the balance.

#### Partial Withdrawal<sup>6</sup>

Participants can make a one-time only withdrawal of part of their TSP accounts and leave the remainder in the TSP until a later date. However, if a participant received an age-based in-

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<sup>3</sup> Source: *Withdrawing Your TSP Account After Leaving Federal Service*, June 2007.

<sup>4</sup> Source: *Withdrawing Your TSP Account After Leaving Federal Service*, June 2007.

<sup>5</sup> Forms used by uniformed service members are numbered the same as for civilians except they are denoted by a "U". For example, the Form TSP-70 for the uniformed services is Form TSP-U-70.

<sup>6</sup> Source: *Withdrawing Your TSP Account After Leaving Federal Service*, June 2007.

service withdrawal, the participant is not eligible for a partial withdrawal. Additionally, the participant must not have received a partial withdrawal from a prior period of employment.

The minimum amount that can be partially withdrawn is \$1,000; if the vested account balance is less than \$1,000, the participant must submit a request for a full withdrawal. The withdrawal is deducted from the participant's account proportionally from each source (i.e., employee, agency automatic 1 percent, and agency matching) and each investment fund in which the participant is invested at the time of disbursement. The partial payment is subject to the 20 percent tax withholding; however, it is an eligible rollover distribution in which the participant may request a transfer of all or a portion of the partial payment to a traditional IRA or other eligible employer plan. Amounts transferred to a traditional IRA or other eligible employer plan retain their tax-deferred status.

A partial payment is requested through the completion of the Form TSP-77, *Request for Partial Withdrawal When Separated*. The completed form can be mailed or faxed to the TSP in Birmingham, AL or initiated, and in some cases completed, via the TSP website. For married FERS or uniformed services participants, spousal consent is required regardless of the account balance or the amount of withdrawal; the participant's spouse must sign the form, and the spousal signature must be notarized prior to submission to the TSP. For married CSRS participants, the TSP must notify the spouse of the withdrawal election, regardless of the account balance or the amount of withdrawal. For FERS or uniformed services participants, two exceptions can be made to the spousal consent rule: a) the whereabouts of the spouse is unknown, or b) exceptional circumstances exist. In both cases, a Form TSP-16, *Exception to Spousal Requirements*, must be completed. For married CSRS participants, the only exception to the spousal notification rule is if the participant does not know the whereabouts of his/her spouse, in which case a Form TSP-16 must be completed.

If the participant has two separate TSP accounts as a Federal civilian employee and as a member of the uniformed services, the participant can make a partial post-separation withdrawal only from the account associated with the participant's separation. If both accounts are associated with the participant's separation, a partial post-separation withdrawal can be made from each account.

### **Full Withdrawal<sup>7</sup>**

Participants can receive their entire account balance in a single payment, receive their entire account balance in a series of monthly payments, or have the TSP purchase a life annuity with their entire account balance. Participants can also withdraw their entire account balance using a combination of these options, referred to as a mixed withdrawal. A full withdrawal can be requested through submission of a Form TSP-70; only certain sections of the form are required to be completed based on the participant's withdrawal elections.

- **Single Payment** – Participants can withdraw their entire account balance in a single payment. Participants can also use the mixed withdrawal option and request a percentage of the account balance to be made in a single payment. Alternatively, the participant can request a transfer of all or any percentage of the single payment to a traditional IRA or other eligible employer plan. The single payment percentage not transferred is subject to the mandatory 20 percent Federal income tax withholding. The transferred portion maintains its tax-deferred status.
- **Series of Monthly Payments** – Participants can withdraw their entire account balance or a percentage of their account balance (mixed withdrawal) in a series of substantially equal monthly payments. The participant can choose one of two monthly payment options:
  - a) Monthly payments computed by the TSP based on Internal Revenue Service (IRS) life expectancy tables where the initial payment is based on the account balance at the time of the first payment and the participant's age. The TSP recalculates the amount of monthly payments each year based on the account balance at the end of the preceding year and the participant's age. The monthly payments are subject to the ordinary income tax withholding. Payments cannot be transferred to a traditional IRA or eligible employer plan.
  - b) A specific dollar amount where the participant receives payments in the amount requested until the entire balance has been paid. The amount of monthly payments must be \$25 or more. If the payments are expected to last less than 10 years, the payments are subject to the mandatory 20 percent Federal tax withholding; however, the participant may request that all or a portion of the payments be transferred to a traditional IRA or other eligible employer plan. If the payments are expected to last 10 or more years, they are subject to ordinary income tax withholding, and the payments cannot be transferred.

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<sup>7</sup> Source: *Withdrawing Your TSP Account After Leaving Federal Service*, June 2007.

For both options, the participant can complete Form TSP-73, *Change in Monthly Payments*, to:

- Change to a final single payment; the final payment can be sent directly to the participant or the participant may elect to transfer all or a portion of the final single payment to a traditional IRA or other eligible employer plan;
- Begin transferring eligible monthly payments or change the portion of each monthly payment that is transferred to a traditional IRA or other eligible employer plan;
- Select a different traditional IRA or other eligible employer plan;
- Begin direct deposit of the portion currently sent to them via check, or stop direct deposits and begin receiving checks; or
- Choose a different financial institution, checking account, or savings account that is currently receiving the monthly payments.

For both options, the participant can also complete Form TSP-73 to request an annual change to the dollar amount of his/her monthly payment or a one-time change during the life of the account from the IRS life expectancy payments to a specified dollar amount. The request for these changes must be received by the TSP by December 15 each year to be effective with the first payment received in January of the subsequent year. A participant does not have the option to change from a specified dollar amount to IRS life expectancy payments. If a participant makes a change to his/her monthly dollar amount, the TSP must determine whether the change results in the participant receiving fewer than 120 payments. If so, the monthly payments will be categorized as eligible rollover distributions and will be treated the same way as a final single payment for federal income tax purposes. If the change results in 120 payments or more, the monthly payments will be treated as "periodic payments" and the tax withholdings will be based on IRS withholding requirements for a person who is married with three dependents. Participants can elect to change their withholding amount through Form W-4P.

- **Life Annuity** – Participants can withdraw their entire account balance or a percentage of their account balance (mixed withdrawal) as a life annuity. To be eligible, the participant's vested balance must be at least \$3,500, or the portion of the account balance applied to the annuity option must equal at least \$3,500. The TSP purchases annuities for participants through the contracted annuity provider, which is currently Metropolitan



Life Insurance Company. The three general types of annuity options are Single Life Annuity, Joint Life with Spouse Annuity, and Joint Life with Other Survivor Annuity.

- **Mixed Withdrawal** – As previously mentioned, participants can withdraw their account balance using a combination of any two or all three of the available full withdrawal options (single payment, monthly payments, and life annuity).

For married FERS, CSRS, and uniformed service participants requesting full withdrawals, including mixed withdrawals, spouses' rights requirements apply only if the account balance is more than \$3,500. If a married FERS or uniformed service participant with an account balance exceeding \$3,500 elects a full withdrawal and does not request that the entire account balance be used to purchase a joint life annuity with 50 percent survivor benefit, level payments, and no cash refund feature, the spouse must waive this right by signing the Form TSP-70, and the spousal signature must be notarized. For a married CSRS participant with an account balance exceeding \$3,500 electing a full withdrawal, the TSP must notify the participant's spouse of the withdrawal election. The TSP places these CSRS disbursements on a two day hold to allow for spousal notification. The spousal exceptions are the same as noted above in the Partial Withdrawal section.

#### Required Minimum Distributions (RMD)<sup>8</sup>

The Internal Revenue Code (IRC) requires that participants receive a portion of their TSP account beginning the calendar year they become age 70 ½ and are separated from service. This year is called the participant's first distribution year. Thus, if the participant separates after age 70 ½, his/her account is immediately subject to the IRC minimum distribution requirements. If a participant does not withdraw his/her account balance or begin receiving payments from his/her account before or during the first distribution year, the TSP must make the required distribution to the participant by April 1 of the following year (i.e., the second distribution year). The minimum distribution payment cannot be transferred or rolled over. The TSP calculates the minimum distribution based on the participant's account balance and age using the IRS Uniform Lifetime Table. If the participant does not withdraw or begin withdrawing his/her account by April 1 of the second distribution year, his/her account will be forfeited to the TSP (although the RMD for the prior year is sent to the participant's last address of record).

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<sup>8</sup> Source: *Withdrawing Your TSP Account After Leaving Federal Service*, June 2007.

### Death Benefits<sup>9</sup>

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

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

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

Beneficiaries must submit a completed Form TSP-17, *Information Relating to Deceased Participant*, and a copy of the certified death certificate to the TSP before the TSP will begin processing the death benefit payment.

For participants who die while still actively employed in Federal service, the TSP verifies that the participant's personnel or payroll office has submitted the employment code indicating the participant's death before processing the death benefit request. For all deceased participants (regardless of whether they died in service or after separation from service), the TSP verifies that the participant's account has not already been paid based on any type of previous withdrawal request and that no outstanding court order exists that affects disbursement of the participant's TSP account prior to processing the death benefit request.

In December 2010, the TSP began establishing beneficiary participant accounts for the spouses of deceased participants. If a spouse's share of death benefits is \$200 or more, the TSP establishes and maintains a beneficiary participant account for the spouse. The entire share is invested in the Government Securities Investment (G) Fund until the spouse elects a different investment option or chooses to withdraw the money as a single payment, monthly payments,

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<sup>9</sup> Source: the Thrift Savings Plan's *Death Benefits Information for Participants and Beneficiaries*, December 2010.

annuity, or a combination of these options. If the spouse's share is less than \$200, the TSP sends a check for the payment.

#### Court Orders<sup>10</sup>

The TSP must honor a valid court order that awards all or part of a TSP account to a current or former spouse. The TSP must also honor a valid legal process that enforces obligations to pay child support or alimony or to satisfy judgments for child abuse. With the exception of a minimum distribution, a participant's withdrawal is not processed until the court order is settled.

The TSP makes only one disbursement per payee under a court order or legal process; the TSP does not make a series of payments even if the order or process requires it, or even if the participant's account balance is insufficient at the time of payment for the TSP to satisfy the payee's entire entitlement. However, the TSP will honor a second court order. All payments are made pro rata from all TSP investments in which the participant is invested based on the balance in each fund on the date payment is made and from all contribution sources. All or part of a payment to a current or former spouse under a court order or a legal process may be transferred to a traditional IRA or an eligible employer plan. Special additional rules may apply for uniformed services accounts.

#### *TSP In-Service Withdrawals<sup>11</sup>*

##### Age-Based In-Service Withdrawals

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

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<sup>10</sup> Source: the Thrift Savings Plan's *Court Orders and Powers of Attorney*, January 2011.

<sup>11</sup> Source: the Thrift Savings Plan's *In-Service Withdrawals*, July 2008.

member of the Ready Reserve), an age-based in-service withdrawal can be made from each account.

Participants who make an age-based in-service withdrawal cannot subsequently receive a post-separation partial withdrawal. The in-service withdrawal cannot be repaid to the TSP and is subject to the 20 percent Federal withholding tax. It is an eligible rollover distribution; thus, the participant can transfer all or a portion of the withdrawal to a traditional IRA, Roth IRA, or other eligible employer plan. To request an age-based in-service withdrawal, participants must complete the Form TSP-75, *Age-Based In-Service Withdrawal Request*. As previously noted with the post-separation partial withdrawals, the TSP has spousal consent and notification requirements. For married FERS or uniformed services participants, the spouse must consent to the withdrawal, and the spouse's signature must be notarized. If the spouse's whereabouts are unknown or exceptional circumstances exist that make it inappropriate to obtain spousal consent, the participant can complete Form TSP-16, *Exception to Spousal Requirements*, and provide the required documentation. For married CSRS participants, the TSP must notify the participant's spouse before the in-service withdrawal is made. The only exception to this requirement is if the participant does not know the whereabouts of his/her spouse, in which case completion of Form TSP-16 is necessary.

Additionally, for those participants requesting a transfer of their age-based in-service withdrawal to an eligible employer plan or traditional IRA, the Form TSP-75 must be completed by the financial administrator of the plan or IRA and mailed to the TSP.

#### Financial Hardship In-Service Withdrawal

Financial hardship in-service withdrawals allow participants, regardless of age, who have a financial need to make a withdrawal of their own contributions and the earnings on their contributions, including any amounts transferred into the TSP account from a traditional IRA or eligible employer plan, up to the financial need. Financial hardship withdrawals must be a minimum of \$1,000. The withdrawal is deducted proportionally from each investment fund according to the employee contributions in that investment fund at the time of disbursement.

To be eligible for a financial hardship withdrawal, participants must have a financial need that results from at least one of the following four conditions: negative monthly cash flow, eligible medical expenses (including household improvements needed for medical care), eligible personal casualty losses, or eligible legal expenses for separation or divorce from a spouse. Participants cannot request a financial hardship withdrawal because of negative cash flow while

under Chapter 13 bankruptcy. However, participants can request a financial hardship withdrawal for medical, personal casualty loss, or legal divorce fee expenses while under Chapter 13 bankruptcy. Income information or documentation to substantiate the financial hardship is not required to be submitted. However, participants must certify on their withdrawal requests, under penalty of perjury, that they have a genuine financial hardship based on conditions described on the form. There is no limit to the number of financial hardship in-service withdrawals that a participant can make.

To request a financial hardship in-service withdrawal, the participant must complete a Form TSP-76, *Financial Hardship In-Service Withdrawal Request*. For married FERS and uniformed services participants, spousal consent (with notarized signature) is required. For married CSRS participants, spousal notification is required. The same spousal requirement exceptions apply as previously indicated for age-based in-service withdrawals. The IRS considers financial hardship withdrawals to be a non-periodic payment for Federal income tax purposes; thus, the TSP withholds 10 percent of the withdrawal unless the participant submits a completed IRS Form W-4P, *Withholding Certificate for Pension or Annuity Payments*, with the application. The participant may also be subject to an early withdrawal penalty tax of 10 percent if the participant is not age 59 ½ at the time of withdrawal.

After a financial hardship withdrawal disbursement has been made, participants cannot make contributions to the TSP or complete another financial hardship withdrawal for a period of six months. Although FERS employees do not receive any agency matching contributions during this six-month period, those FERS employees in pay status do continue to receive their agency automatic one percent contributions. When the financial hardship is processed, the TSP sends the participants a notice that identifies when the participants can resume making contributions to the TSP. Additionally, at the end of the six-month period, the TSP notifies the participants of their eligibility to resume contributions. The participants must request to resume contributions by submitting Form TSP-1, *Election Form*, along with a copy of the notice that the TSP has sent, as contributions will not resume automatically. If a participant has two separate TSP accounts (e.g., Federal civilian and uniformed services), a financial hardship withdrawal can only be made from the account associated with current employment. If both accounts are associated with the participant's current employment, a financial hardship withdrawal can be made from both accounts.

## **E. TSP Withdrawals Process**

### **Paper Withdrawal Requests**

Withdrawal processing for paper forms begins in the service provider facility in Birmingham, AL where the mailroom receives withdrawal forms submitted by participants. All forms receive a barcode to indicate the type of withdrawal form it is and are then scanned into PowerImage. Forms are then sent to one of the service provider's teams to be indexed so each one can be linked to the relevant participant's account. During indexing, PowerImage performs edit checks on the participant's name and account ID to verify they match a valid account in the TSP system and ensure that a duplicate form is not already in process.

Once the form is indexed, its information is entered into AnyDoc. This stand-alone system is linked to PowerImage and is designed to perform edit checks to ensure invalid data is not entered. If the forms are found to contain errors, an error message is displayed on the screen so that the data entry clerk can determine whether any data entry errors were made and correct such errors if identified. If the data entered matches with the data on the forms, the data entry clerk allows the form to process. PowerImage rejects a form that contains errors and produces a reject notice that is mailed to the participant. If the forms are determined to be free of data entry error, the TSP system performs additional edits. Once the forms pass the edits within the TSP system, a confirmation letter is sent to the participant, denoting the processing of the withdrawal request and related information.

### **Electronic Withdrawal Requests**

Participants can, in some cases, complete withdrawals via the TSP website (e.g., CSRS participants or unmarried FERS participants not electing transfers to an eligible employer plan or traditional IRA). The website interface performs various edits on the data entered by the participants. Participants are alerted on-line of any errors detected and are not able to submit the form without correcting the errors. If the withdrawal form is submitted successfully via the TSP website and it passes the additional TSP system edit checks, a participant is sent a confirmation letter. All withdrawals for CSRS participants are sent to the TSP system marked with a two-day hold to allow time for spousal notification, if required. Participants whose withdrawals were approved on-line can print out their completed forms from the TSP website. Participants who are not eligible to complete their withdrawal forms on-line must print, complete, and mail them to SunGard in Birmingham, AL.

### Withdrawal Disbursement and Reporting

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

The Agency's Financial Services Division (FSD) is responsible for preparing general ledger information. Withdrawals that were processed during the nightly unified process within OmniPlus are extracted and interfaced with Savantage, TSP's general ledger, to transfer disbursement data to the U.S. Department of the Treasury (Treasury) via the SF-1166, *Voucher and Schedule of Payments*. Savantage produces the SF-1166 on a daily basis for transmission to Treasury. Key data elements passed to Treasury include the payee's name, address, and social security number; amount of disbursement; type of disbursement; and form of disbursement (e.g., check or electronic funds transfer (EFT)). Upon receipt, Treasury edits the file and returns a report to the FSD with edit results and control totals. The FSD reconciles the number and dollar value of transactions transmitted and verifies the accuracy. Upon verification, Treasury releases the batch of disbursements for processing. After Treasury disburses funds, Treasury sends payment accomplishment information to the FSD via the Government On-Line Accounting Link Information Access System (GOALS IAS). The FSD performs a daily manual reconciliation between the Treasury disbursement report from GOALS IAS, TSP system summary reports, and Savantage reports to ensure completeness and accuracy of the disbursed funds.

Agency personnel are responsible for reviewing withdrawal activity reports generated by the TSP system. Currently, the Agency uses the following reports to monitor the withdrawals process:

- *Cumulative Disbursement Report (Report TSP 6001)* - This report summarizes withdrawal activity in both transaction number and dollar value. The monthly report presents cumulative activity to date totals. The report summarizes disbursed withdrawals (both in-service and post-service) by activity category (e.g., transfers, cash-outs, and age-based in-service withdrawals) and withdrawal method (e.g., check or EFT). This report is primarily used for demographic and trend analyses by the Office of Benefit Services.



- *Investment True-Up of Trades Report – Withdrawal Activity (Report TSP 3404)* - This report summarizes withdrawal payments in both transaction number and dollar value. The report lists cumulative totals for the prior year's activity and monthly summary totals for the current year. Withdrawal categories summarized on the report include transfers, lump sums, equal payments, annuities, cash-outs, death benefits, minimum distributions, and in-service withdrawals. This report is primarily used by the FSD to review the withdrawal activity in the general ledger.
- *Disbursement Listing Report – Detail (Report TRIS 9010)* – This report details the disbursements made for each participant by withdrawal category and withdrawal method for the day. In conjunction with the Report TSP 3404, this report is primarily used by the FSD to submit disbursement information to Treasury.

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

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

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

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

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

#### Additional Information on the Required Minimum Distributions Process

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

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

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

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

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

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

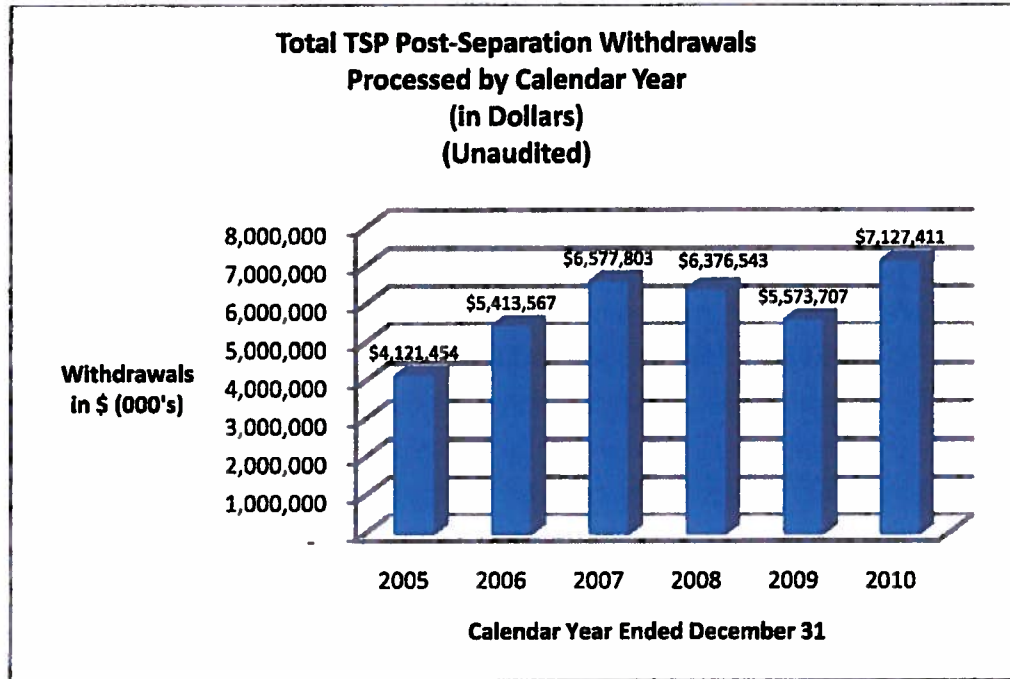
#### **F. TSP Withdrawal Statistics**

Exhibit II-1 illustrates the total TSP post-separation withdrawals disbursed in dollars, including death benefit disbursements and court order disbursements<sup>12</sup>, for calendar years 2005 through 2010. Exhibit II-2 presents the number of TSP post-separation withdrawals disbursed for calendar years 2005 through 2010.

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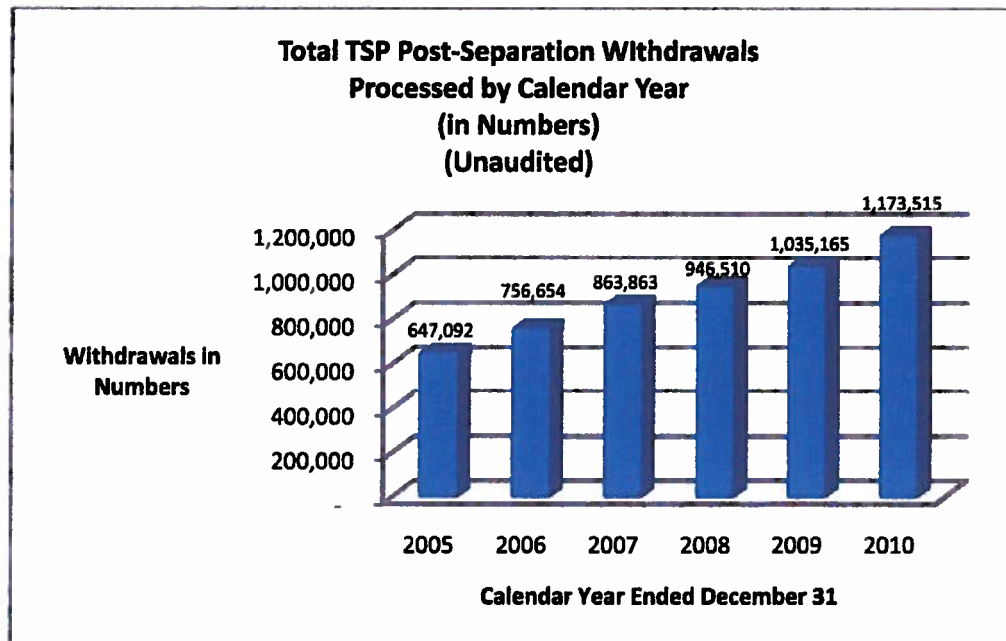
<sup>12</sup> Court order disbursements include disbursements made from the accounts of participants who are still in-service.

*Exhibit II-1*



Source: TSP Withdrawal Processing Activity Report

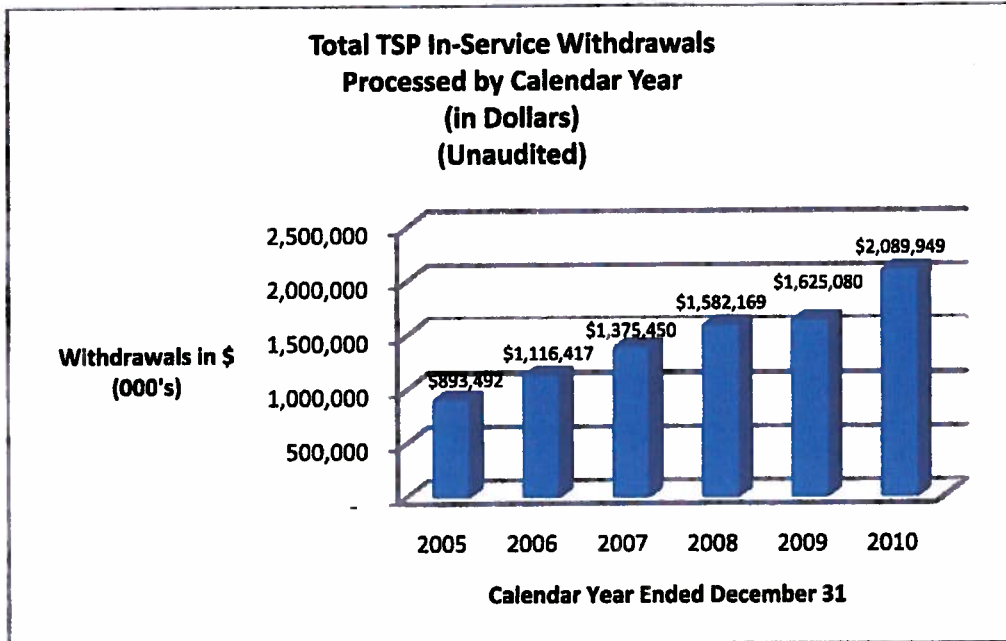
*Exhibit II-2*



Source: TSP Withdrawal Processing Activity Report

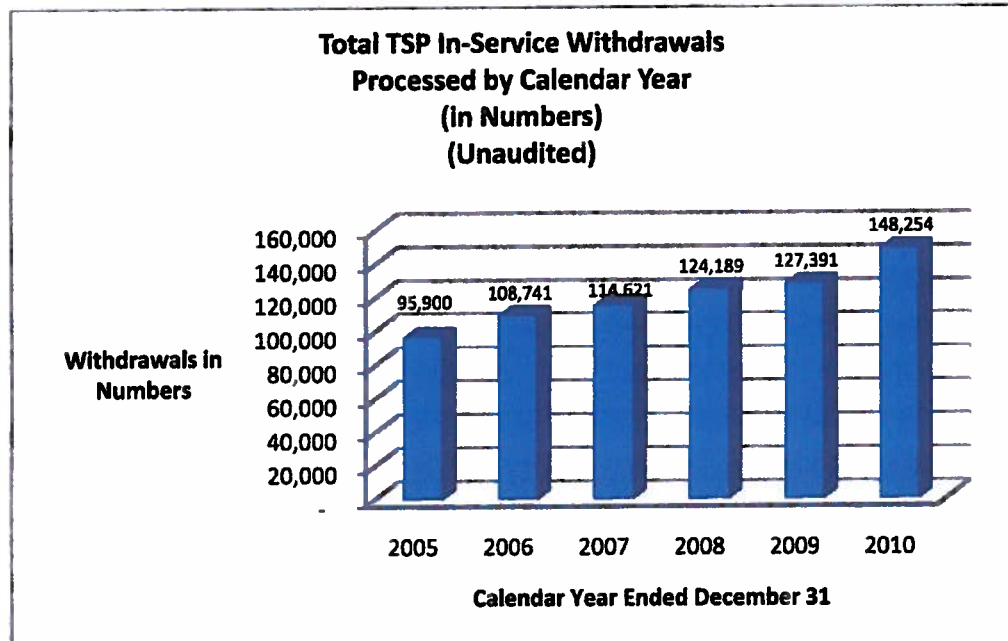
Exhibit II-3 presents in-service withdrawals disbursed, in dollars, each year from calendar year 2005 through 2010. Exhibit II-4 presents the number of in-service withdrawals disbursed each year from calendar year 2005 through 2010.

*Exhibit II-3*



Source: TSP Withdrawal Processing Activity Report

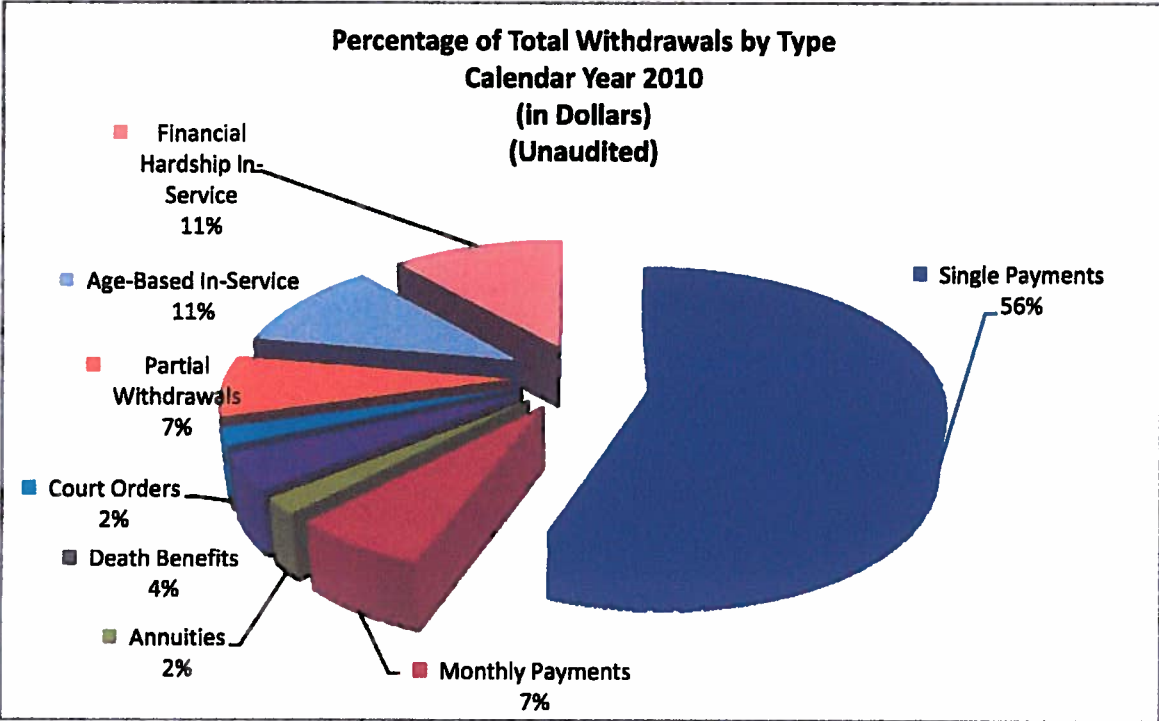
*Exhibit II-4*



Source: TSP Withdrawal Processing Activity Report

Exhibit II-5 illustrates the percentages of total withdrawal disbursements, by type, including both post-separation and in-service, during calendar year 2010.

*Exhibit II-5*



Source: TSP Withdrawal Processing Activity Report



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

#### **A. Introduction**

We performed procedures related to the Thrift Savings Plan (TSP) withdrawals process while conducting a performance audit at the Federal Retirement Thrift Investment Board's (Board) Staff (Agency) headquarters. Our scope period for testing was January 1, 2010 through December 31, 2010, except for our testing related to required minimum distributions, which was January 1, 2010 through April 30, 2011. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel (Appendix A), reviewing key reports and documentation (Appendix B), and observing selected procedures.

Overall, we conclude that for our scope period the TSP withdrawals process complied with the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, and with applicable Board regulations and bulletins except for certain elements of the following provisions:

- Title 5 of the United States Code (USC) section 8433(e) (5 USC 8433(e)) and Code of Federal Regulations (CFR), Title 5, Part 1651.19 (5 CFR 1651.19), which describe the requirements for TSP beneficiary participant accounts (BPA);
- 5 CFR 1650.16, which describes the Agency's requirements for notifying TSP participants of account abandonments;
- 5 CFR 1653.4, which describes the requirements for calculating a payee's entitlement for court order awards; and
- 5 USC 8440, which requires the Thrift Savings Fund to be treated as a trust described in section 26 USC 401, which describes the requirements regarding when required distributions must be paid.

We also noted that the Agency implemented certain procedures to (1) process TSP withdrawal transactions promptly and accurately in individual participant accounts, (2) process withdrawal and death benefit payments in accordance with regulations and participant authorization, and (3) accurately record withdrawal activity in the TSP accounting records. In addition, the Agency has developed corrective action plans to address the December 2010 erroneous required minimum distribution (RMD) incident. However, we noted internal control weaknesses in certain areas that could adversely affect this TSP process.

We present five new recommendations related to the TSP withdrawals process, four 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. All recommendations are intended to strengthen the TSP withdrawals process. The Agency should review and consider these recommendations for timely implementation. The Agency's responses to these recommendations are included as an appendix within this report (Appendix D).

We also reviewed four prior TSP recommendations, identified in Section III.B, to determine their current status. These prior year recommendations were reported in the *Review of the Thrift Savings Plan Withdrawals Process, August 24, 2005*. Section III.B documents the status of these prior recommendations. In summary, two of the recommendations have been closed, one recommendation has been partially implemented and remains open, and one recommendation has not been implemented and remains open.

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

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

The findings and recommendations from prior reports that required follow-up are presented in this section. The discussion below includes the current status of each recommendation as of November 9, 2011.

### **2005 Withdrawals Process Review Recommendation No. 1:**

<b><u>Original Recommendation:</u></b>	The Agency should enhance supervisory review procedures over daily disbursement reconciliations to ensure that reconciling items are resolved timely. The Agency should also ensure that the reconciling items related to August 2004 and prior are promptly corrected in the TSP general ledger. In addition, the supervisors should document evidence of their review on each reconciliation.
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Reason for Of the 25 daily reconciliations judgmentally selected for testing, we  
Recommendation: noted that reconciling items on 24 reconciliations were not timely resolved. Specifically, we identified certain reconciling items that were identified during the period of August 2003 through August 2004 that as of February 2005 had not been properly adjusted in the TSP general ledger (i.e., Savantage). In addition, we noted one reconciliation completed in February 2005 that had no evidence of supervisory review.

November 2011 **Partially Implemented**

Status: During our current year testing procedures over a sample of 15 daily reconciliations, we noted that all reconciliations selected for testing had evidence of supervisory review. However, certain reconciling items on the reconciliations were not resolved. Specifically, we identified certain reconciling items that were originally identified during the period of August 2003 through August 2004 that had not been adjusted in the TSP general ledger. These reconciling items totaled \$1.1 million.

Disposition: **Recommendation Open**

**2005 Withdrawals Process Review Recommendation No. 2:**

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

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

**November 2011**

**Not Implemented**

**Status:**

We obtained the population of TSP accounts for which participants had previously requested a full post-separation withdrawal but still had a residual balance as of May 17, 2011. The population consisted of approximately 28,000 accounts totaling \$2.3 million. We noted each account had a balance of less than \$250 and that the majority of this balance had existed since 2005 or earlier.

**Disposition:**

**Recommendation Open**

**2005 Withdrawals Process Review Recommendation No. 3:**

**Original**

The Agency should develop and implement procedures to ensure that exception processing does not interfere with the payment of RMDs.

**Recommendation:**

**Reason for**

**Recommendation:**

For one of our 59 sample items tested, a required minimum distribution (RMD) was not paid to the participant because of exception processing for this participant. The participant completed the Form TSP-70 requesting a full post-separation withdrawal; he erroneously checked the "single payment" option as he thought it related to the RMD although he wanted to begin receiving monthly payments. Miscommunication occurred when he discussed the situation with a Participant Service Representative. Based on the form submitted, the full single payment was properly paid to him on February 24, 2005, which included the RMD portion that was required to be paid to him. However, because of the miscommunication, the Agency reversed the full post-separation single payment via exception processing on March 29, 2005 and set up monthly installments on March 30, 2005. Because the full single payment was reversed and returned to the TSP, the RMD was not paid to the participant. Further, no TSP system "trigger" identified the need to pay the RMD because as of March 1, the participant had fully withdrawn his account from the TSP.

**November 2011**

**Implemented**

**Status:**

During our current year audit, the Agency communicated that the programming in the TSP system had been updated to address this issue. Further, we selected a sample of 58 TSP participants who were age 70.5 or older for testing to determine if RMDs were properly paid to those who were eligible. No exceptions were noted during our testing. Therefore, we consider this recommendation closed.

**Disposition:**

**Recommendation Closed**

**2005 Withdrawals Process Review Recommendation No. 4:**

**Original**

**Recommendation:**

The Agency should monitor its newly implemented Treasury credit process to ensure that it facilitates the timely research and re-issuance of all returned withdrawal checks and EFTs, and make any modifications considered necessary based on the monitoring results.

**Reason for**

**Recommendation:**

Of 39 sample items, we noted 9 instances in which returned withdrawal checks and electronic funds transfers (EFTs) (i.e., Treasury credits) were not timely investigated and re-issued by the TSP. The Agency enhanced its process in August 2005 by implementing a Treasury credit queue within PowerImage, which should provide for better tracking and monitoring of Treasury credits and their status.

**November 2011**

**Implemented**

**Status:**

During our current year audit, we noted the Agency implemented formal policies and procedures for tracking and monitoring the status of returned withdrawal checks and Treasury credits. In addition, we tested a sample of 58 returned withdrawal checks and Treasury credits and determined they were properly re-issued or forfeited in accordance with Agency policies and procedures.

**Disposition:**

**Recommendation Closed**

### **C. 2011 Findings and Recommendations**

While conducting our performance audit over the TSP withdrawals process, we identified six new findings and developed related recommendations. The Employee Benefits Security Administration (EBSA) requests appropriate and timely action for each recommendation.

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

##### **Inappropriate Establishment of a BPA**

The TSP implemented the BPA Program in December 2010, which establishes BPAs for spousal beneficiaries and allows them to keep their deceased spouse's account balance in the TSP. We selected 58 BPAs established during the year ended December 31, 2010 for testing. We noted that one of the spousal BPAs selected was established for the son of a deceased participant. This error occurred because the related Form TSP-3, *Designation of a Beneficiary*, and Form TSP-17, *Information Relating to a Deceased Participant*, were not sufficiently reviewed to identify that the beneficiary was not a spouse.

5 USC 8433(e)(2) states "...if an employee, Member, former employee, or former Member dies and has designated as sole or partial beneficiary his or her spouse at the time of death, or, if an employee, Member, former employee, or former Member, dies with no designated beneficiary and is survived by a spouse, the spouse may maintain the portion of the employee's or Member's account to which the spouse is entitled..."

5 CFR 1651.19 states "A beneficiary participant account may be established only for a spouse of a deceased participant who is a sole or partial beneficiary of the deceased participant's TSP account."

- 1. The Agency should evaluate the specific cause of the BPA deficiency identified and develop the appropriate corrective action to enhance supervisory review of the applicable TSP forms to ensure that BPAs are only established for qualifying spouses.**

Implementation of this recommendation would assist the Agency in maintaining compliance with FERSA and applicable Board regulations related to BPAs.

### **Required Notifications Not Delivered to Participants**

We selected a sample of 58 accounts that were abandoned and subsequently forfeited to the TSP during calendar year 2010 and a sample of 58 participants turning age 70 ½ in calendar year 2011. As a result of our test work over these sample items, we identified the following exceptions:

- Account holders for 10 of the abandoned accounts selected for testing did not receive the required notification in January of their 2<sup>nd</sup> distribution year warning them that their account would be abandoned and subsequently forfeited if a withdrawal election was not made.
- Thirteen participants turning 70 ½ in calendar year 2011 selected for testing did not receive the required notification in calendar year 2010 informing them that if they were to separate, or were already separated from service, calendar year 2011 would be their 1<sup>st</sup> distribution year and that a withdrawal election was necessary in order to satisfy required minimum distribution guidelines.

The TSP system is configured to automatically generate and distribute required notifications to participants based upon various criteria, depending on the notification being sent. In the case of the items identified above, the criteria used by the TSP system to determine the need to generate and distribute a notification did not appropriately identify the selected individuals.

Per 5 CFR 1650.16(c), *Methods of Withdrawing from the Thrift Savings Plan* Su Per 5 CFR 1650.16(c), *Methods of Withdrawing from the Thrift Savings Plan Subpart B – Post-Employment Withdrawals*, “In the event that a participant does not withdraw his or her account in accordance with paragraph (a) of this section, the Board will transfer all of the funds in the participant's account not already invested in the Government Securities Investment (G) Fund to that fund. A notice of this action will be sent to the participant with a warning that his or her account will be declared abandoned and forfeited unless the participant comes into compliance with paragraph (a) by a date specified in the notice.”

The TSP booklet *Withdrawing Your TSP Account after Leaving Federal Service* states “The TSP will notify you before your required withdrawal date and mail you important tax information about your TSP withdrawal, as well as information about the IRS minimum distribution requirements.”



2. **The Agency should evaluate the specific cause of the notification deficiencies identified and develop the appropriate corrective action to ensure that the TSP system is properly configured so that all necessary notifications are sent to participants in accordance with applicable Board regulations and policies.**

Implementation of this recommendation would assist the Agency in distributing required notifications to applicable participants for their action.

#### **Inaccurate Court Order Payment Processing**

We selected a sample of 19 court order payments processed during the year ended December 31, 2010. During our testing, we noted that one of the court orders awarded the payee one-third of the participant's account balance as of November 11, 2009. The Agency entered the percent of the balance awarded as 33% rather than 33.33%, which resulted in the payee being underpaid by \$147. This error was not detected because the percentage entered was not properly reviewed prior to the payment being processed.

Per 5 CFR 1653.4, "If the court order awards a percentage or fraction of an account as of a specific date, the payee's entitlement will be calculated based on the account balance as of that date. If the date specified in the order is not a business day, the TSP will use the participant's account balance as of the last preceding business day. If the court order awards a percentage or fraction of an account but does not contain a specific date as of which to apply that percentage or fraction, the TSP will use the effective date of the order."

3. **The Agency should enhance its management review of court order payments to ensure they are processed accurately in accordance with applicable court orders.**

Implementation of this recommendation would increase the accuracy of court order payment processing.

#### **Erroneous Required Minimum Distributions**

In late December 2010, the Agency incorrectly processed RMDs to certain TSP participants. This error resulted in 9,271 participants, who had not reached their RMD eligibility date, receiving distribution checks totaling approximately \$58 million. Additionally, 451 participants whose first year RMD payment would normally have occurred in March 2011 received their

payments earlier than required; these early payments totaled approximately \$3 million. The erroneous payments were caused by a coding error in the TSP system that occurred when the Agency was implementing a new process. The coding error improperly changed the RMD eligibility dates for certain TSP participants, which resulted in them incorrectly receiving a RMD.

The Agency notified the affected participants of the error in early January 2011. For those participants who returned the funds to the TSP, their accounts were restored to the balances they would have had if the erroneous distributions had not occurred. For those participants who did not return the funds to the TSP, taxable distributions were declared. To verify these actions, we selected a sample of 58 of these erroneous distributions. Of them, 41 distributions were returned by the participants, and we determined that the account balances of these 41 participants were accurately restored. For the 17 distributions that were not returned to the TSP, we verified that taxable distributions were declared. We identified no exceptions as a result of this testing.

In addition, the Agency communicated during our audit that the coding error in the TSP system that caused the erroneous payments was corrected in August 2011. However, because the RMD process only occurs once a year, we were unable to verify that the corrective action taken effectively resolved the issue during our scope period.

Per 5 USC 8440, "For purposes of the Internal Revenue Code of 1986 – (1) the Thrift Savings Fund shall be treated as a trust described in section 401(a) of such Code which is exempt from taxation under section 501(a) of such Code; (2) any contribution to, or distribution from, the Thrift Savings Fund shall be treated in the same manner as contributions to or distributions from such a trust."

Per 26 USC 401, "...A trust shall not constitute a qualified trust under this subsection unless the plan provides that the entire interest of each employee - (i) will be distributed to such employee not later than the required beginning date, or (ii) will be distributed, beginning not later than the required beginning date, in accordance with regulations, over the life of such employee or over the lives of such employee and a designated beneficiary (or over a period not extending beyond the life expectancy of such employee or the life expectancy of such employee and a designated beneficiary). It further states, "...The term 'required beginning date' means April 1 of the calendar year following the later of - (I) the calendar year in which the employee attains age 70 ½, or (II) the calendar year in which the employee retires."

4. **The Agency should verify that its corrective action related to the December 2010 erroneous RMDs adequately resolved the coding error to ensure the TSP system is properly identifying participants who are eligible for RMDs.**

Implementation of this recommendation would assist the Agency in only disbursing required minimum distributions to eligible participants at the appropriate time.

## **OTHER CONTROL RECOMMENDATION**

### **Untimely Payments of Death Benefits**

We selected a sample of 39 death benefit payments that were processed during calendar year 2010. During our testing, we identified one payment that was not processed until 240 days after the date the beneficiary submitted the payment request. The delay occurred because the payment was scheduled for processing on a Federal holiday, and since no activity is processed on Federal holidays, the payment was placed in suspense. Further, the Death Document Imaging System (DeDIS) was not properly configured to automatically send the payment file to the TSP system on the next business day and, therefore, the payment file remained in suspense. The Agency identified the DeDIS configuration issue in February 2010 and subsequently performed a manual review of death benefit skeletal accounts<sup>13</sup> with activity that was greater than 90 days old, which allowed the Agency to identify the outstanding payment that needed to be processed.

The TSP booklet *Death Benefits, Information for Participants and Beneficiaries* states “Payments are usually made 60 days after the beneficiary determination package is sent from the TSP or after the TSP has received all of the information it needs to make the payment, whichever is sooner.”

5. **The Agency should complete its efforts to correct the configuration in DeDIS so that death benefits scheduled for Federal holidays are processed the next business day. Until the configuration in DeDIS is corrected, the Agency should perform periodic reviews of death benefit skeletal accounts greater than 60 days old to identify accounts requiring follow-up.**

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<sup>13</sup> Funds from a deceased participant’s TSP account are temporarily transferred to a death benefit skeletal account until the death benefits are either paid out or transferred to a BPA.

Implementation of this recommendation would assist the Agency in disbursing death benefit payments to beneficiaries in a timely manner.

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

##### **2005 RECOMMENDATIONS**

##### **OTHER CONTROL RECOMMENDATIONS**

1. The Agency should enhance supervisory review procedures over daily disbursement reconciliations to ensure that reconciling items are resolved timely. The Agency should also ensure that the reconciling items related to August 2004 and prior are promptly corrected in the TSP general ledger.
2. The Agency should identify those participants who have taken a full post-separation withdrawal but have balances remaining in their accounts and disburse those remaining balances to the participants.

##### **2011 RECOMMENDATIONS**

##### **FUNDAMENTAL CONTROL RECOMMENDATIONS**

1. The Agency should evaluate the specific cause of the beneficiary participant account, or BPA, deficiency identified and develop the appropriate corrective action to enhance supervisory review of the applicable TSP forms to ensure that BPAs are only established for qualifying spouses.
2. The Agency should evaluate the specific cause of the notification deficiencies identified and develop the appropriate corrective action to ensure that the TSP system is properly configured so that all necessary notifications are sent to participants in accordance with applicable Board regulations and policies.
3. The Agency should enhance its management review of court order payments to ensure they are processed accurately in accordance with applicable court orders.

4. The Agency should verify that its corrective action related to the December 2010 erroneous RMDs adequately resolved the coding error to ensure the TSP system is properly identifying participants who are eligible for RMDs.

**OTHER CONTROL RECOMMENDATION**

5. The Agency should complete its efforts to correct the configuration in DeDIS so that death benefits scheduled for Federal holidays are processed the next business day. Until the configuration in DeDIS is corrected, the Agency should perform periodic reviews of death benefit skeletal accounts greater than 60 days old to identify accounts requiring follow-up.

## APPENDIX A

### KEY PERSONNEL INTERVIEWED

While performing fieldwork, we interviewed the following key personnel regarding the Thrift Savings Plan withdrawals process:

A. Federal Retirement Thrift Investment Board's Staff (Agency)

Penny Moran	Director, Office of Participant Services
Susan Peine	Deputy Director, Benefits Operations
Anne Beemer	Controller, Office of Finance
Helena Kim	Benefit Program Analyst
Carla Steiger	Senior Accountant
Walter Halfmann	Senior Systems Analyst

B. SunGard Service Bureau and Integrated Business Solutions

Chip Rowe	Special Processing Unit Manager, IBS
Mitch Ware	Director of Administrative Services, SunGard
Brenda Seal	Service Bureau Manager, SunGard

C. Serco Inc.

Khalil Nasiri	Legal Processing Unit Team Lead
Ed Gordon	Death Benefits Processing Unit (DBPU) Team Lead
Lisa Bell	DBPU Verifier

**KEY DOCUMENTATION AND REPORTS REVIEWED**

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

- TSP Bulletin 06-7, *Changes to the Procedures for Processing Retirement Benefits Court Orders Affecting Thrift Savings Plan Accounts*
- TSP Bulletin 06-8, *Pension Protection Act of 2006 – New Benefit for Non-Spouse Beneficiaries of Thrift Savings Plan Accounts*
- TSP Bulletin 10-9, *Consolidation of Forms TSP-3, Designation of Beneficiary (Civilian), and TSP-U-3, Designation of Beneficiary (Uniformed Services)*
- TSP Bulletin 11-2, *Thrift Savings Plan Enhancement Act of 2009 — New Benefit for Spouse Beneficiaries of Thrift Savings Plan Accounts*
- TSP Bulletin 11-3, *Form TSP-3, Designation of Beneficiary, for Federal Civilian Employees, Members of the Uniformed Services, and Beneficiary Participants*
- TSP Booklet: *In-Service Withdrawals*, dated July 2008
- TSP Booklet: *Withdrawing Your TSP Account After Leaving Federal Service*, dated June 2007
- TSP Booklet: *Your TSP Account: A Guide for Beneficiary Participants*, dated December 2010
- TSP Booklet: *Court Orders and Powers of Attorney*, dated January 2011
- TSP Booklet: *Death Benefits*, dated December 2010
- TSP Tax Notice: *Tax Information: Death Benefit Payments*, dated December 2010
- TSP Tax Notice: *Required Minimum Distributions*, dated December 2010
- TSP Tax Notice: *Required Minimum Distribution for Beneficiary Participants*, dated December 2010
- TSP Tax Notice: *Tax Information: Payments From Your TSP Account*, dated December 2010
- TSP Leaflet: *The Time is Near for Withdrawing Your TSP Account*, dated October 2010
- TSP Leaflet: *TSP Withdrawals*, dated December 2010
- *Final Death Benefits Processing Unit Procedures version 4.0*, dated November 2009
- *Final Legal Processing Unit Procedures version 4.0*, dated November 2009
- *Protocols for Service of Process and Overnight Mail version 0.3*, dated January 2011
- Form TSP-3, *Designation of Beneficiary*, for selected dates during our scope period of January 1 through December 31, 2010
- Form TSP-17, *Information Relating to Deceased Participant*, for selected dates during our scope period of January 1 through December 31, 2010

**KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED**

- Form TSP-16, *Exception to Spousal Requirements*, for selected dates during our scope period of January 1 through December 31, 2010
- Form TSP-75, *Age-Based In-Service Withdrawal Request*, for selected dates during our scope period of January 1 through December 31, 2010
- Form TSP-76, *Financial Hardship In-Service Withdrawal Request*, for selected dates during our scope period of January 1 through December 31, 2010
- Form TSP-70, *Request for Full Withdrawal*, for selected dates during our scope period of January 1 through December 31, 2010
- Form TSP-73, *Change in Monthly Payments*, for selected dates during our scope period of January 1 through December 31, 2010
- Form TSP-77, *Request for a Partial Withdrawal When Separated*, for selected dates during our scope period of January 1 through December 31, 2010
- TSP 3404, *Investment True-Up of Trades Report – Withdrawal Activity*, for selected dates during our scope period of January 1 through December 31, 2010
- TSP 3405, *Investment True-Up of Trades Report – Loan Disbursements*, for selected dates during our scope period of January 1 through December 31, 2010
- TSP 3070, *Miscellaneous Receipts and Loan Refunds*, for selected dates during our scope period of January 1 through December 31, 2010
- PM-102, *Payment Requests Released for Payment Report*, for selected dates during our scope period of January 1 through December 31, 2010
- PM-103, *Pre-Payment Report*, for selected dates during our scope period of January 1 through December 31, 2010
- TSP-9013, *Disbursement Listing Report – Detail – Payment Type Totals*, for selected dates during our scope period of January 1 through December 31, 2010
- TSP-9120, *Disbursement Reconciliation*, for selected dates during our scope period of January 1 through December 31, 2010
- TSP-9130, *General Ledger Reconciliation*, for selected dates during our scope period of January 1 through December 31, 2010
- TSP Withdrawal Processing Activity (sorted by withdrawal type) spreadsheet, for the period January 1 through December 31, 2010



## **APPENDIX C**

### **ENTRANCE AND EXIT CONFERENCE ATTENDEES**

An overall entrance conference, covering the entire FY 2011 Thrift Savings Plan (TSP) audit plan and proposed schedule, was held at the Agency on October 18, 2010. Attendees were as follows:

**A. Federal Retirement Thrift Investment Board's Staff (Agency)**

Jim Petrick	Chief Financial Officer
Penny Moran	Director, Office of Benefit Services
Mark Hagerty	Chief Information Officer
Anne Beemer	Controller
Karrenthya Simmons	Internal Auditor

**B. Department of Labor, Employee Benefits Security Administration**

William Bailey	Senior Auditor, FERSA Compliance
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**C. KPMG LLP**

Heather Flanagan	Partner
Derek Thomas	Manager
Greg Schuster	Manager
Michele Ho	Computer System Analyst

**ENTRANCE AND EXIT CONFERENCE ATTENDEES, CONTINUED**

An entrance conference for the TSP Withdrawals Process performance audit was held with the Agency on April 1, 2011. Attendees were as follows:

**A. Federal Retirement Thrift Investment Board's Staff (Agency)**

Jim Petrick	Chief Financial Officer
Penny Moran	Director, Office of Benefits Services
Sue Peine	Deputy Director, Benefits Operations
Anne Beemer	Controller
Karrenthya Simmons	Internal Auditor

**B. Department of Labor, Employee Benefits Security Administration**

William Bailey	Senior Auditor, FERSA Compliance
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**C. KPMG LLP**

Heather Flanagan	Partner
Derek Thomas	Manager
Matthew Robarge	Supervisor
Dipen Patel	Senior Accountant
Brittany Grant	Staff Accountant

**ENTRANCE AND EXIT CONFERENCE ATTENDEES, CONTINUED**

An exit conference was held on October 17, 2011 with the Agency. Attendees were as follows:

**A. Federal Retirement Thrift Investment Board's Staff (Agency)**

Jim Petrick	Chief Financial Officer
Penny Moran	Director, Office of Participant Services
Anne Beemer	Controller
Sue Peine	Deputy Director of Benefit Operations
Brack Boone	Senior Internal Auditor
Denise Clifton	Benefit Program Analyst
Helena Kim	Benefit Program Analyst
Karrenthya Simmons	Internal Auditor

**B. Department of Labor, Employee Benefits Security Administration**

William Bailey	Senior Auditor, FERSA Compliance
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**C. KPMG LLP**

Heather Flanagan	Partner
Derek Thomas	Manager
Matthew Robarge	Supervisor



**AGENCY'S COMMENTS TO THE FINAL REPORT**

**FEDERAL RETIREMENT THRIFT INVESTMENT BOARD**  
1250 H Street, NW Washington, DC 20005

**GREGORY T. LONG**  
Executive Director

**February 14, 2012**

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

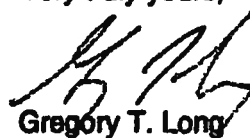
**Dear Ian:**

**This is in response to your email of February 8, 2012, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Withdrawal Process, dated November 9, 2011. My comments with respect to this report are enclosed.**

**We are pleased to note that the auditors concluded during the FY2011 audit that the TSP Withdrawal Process complied with FERSA and with applicable Board regulations and bulletins for the period January 1, 2010 through December 31, 2010. My comments with respect to the report are enclosed.**

**Thank you once again for the constructive approach that the Department of Labor and its contractors are taking in conducting the various audits of the TSP. The information and recommendations that are developed as a result of your reviews are useful to the continued improvement of the Thrift Savings Plan. I also want to thank you for your continuing efforts to close prior year recommendations.**

**Very truly yours,**



**Gregory T. Long**

**Enclosure**

**AGENCY'S COMMENTS TO THE FINAL REPORT, CONTINUED**

**Executive Director's Staff Formal Comments on the  
Employee Benefits Security Administration's Performance of the  
Thrift Savings Plan- Withdrawals Process  
Dated November 9, 2011**

**Prior Recommendations -- Other:**

**2005 Recommendation No 1:**

The Agency should enhance supervisory review procedures over daily disbursement reconciliations to ensure that reconciling items are resolved timely. The Agency should also ensure that the reconciling items related to August 2004 and prior are promptly corrected in the TSP general ledger. In addition, the supervisors should document evidence of their review on each reconciliation.

**Response:** We concur with this recommendation. The reconciling items on the SF1166 reconciliations were related to a programming error with the Savantage disbursement module and its respective reports. The module was deployed in July 2003. Serco Accounting has provided detailed documents supporting the fact that all of the payments have been cancelled or voided and the general ledger impact is non-existent. The Savantage disbursement application had a report error that caused the daily disbursement report to continue to reflect these items as open even though the payments had changed disposition. The report lacked the ability to recognize the status change for these payments.

The Savantage disbursement module went live in July 2003 and was sunset July 2011. A more robust disbursement application, OMNIPay, was deployed in July 2011. The OMNIPay disbursement application eliminated this outstanding issue and has afforded the Agency the ability to retain information on cancelled/void checks.

With the implementation of OMNIPay this outstanding issue has been resolved due to the new disbursement application's reporting. We consider this recommendation to be closed.

**2005 Recommendation No 2:**

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

**Response:** We concur with this recommendation. This project is on hold until the address clean-up project is implemented after the TSP Roth project goes forward in Spring 2012. Once the address clean up project resumes, we anticipate obtaining valid addresses with which to contact participants regarding these residual funds and to take other action as appropriate.

**AGENCY'S COMMENTS TO THE FINAL REPORT, CONTINUED**

**Recommendations to Address Fundamental Controls:**

**2011 Recommendation No 1:**

The Agency should evaluate the specific cause of the BPA deficiency identified and develop the appropriate corrective action to enhance supervisory review of the applicable TSP forms to ensure that BPAs are only established for qualifying spouses.

**Response:** We concur with this recommendation. The Death Benefit Processing Unit (DBPU) initiated a new secondary review process for all cases involving a spouse beneficiary in December 2010 when Beneficiary Participant Accounts (BPA) was implemented. This review ensures that beneficiaries are properly identified as spouses or non-spouses at the time the BPA is established or the non-spouse skeletal account is established. The Agency considers this recommendation closed.

**2011 Recommendation No. 2**

The Agency should evaluate the specific cause of the notification deficiencies identified and develop the appropriate corrective action to ensure that the TSP system is properly configured so that all necessary notifications are sent to participants in accordance with applicable Board regulations and policies.

**Response:** We concur with this recommendation. The January 2010 notifications that RMDs would be issued in March 2010 to ten participants were not generated because their RMD eligibility date in the record keeping system did not get updated after the 2009 RMD payments were suppressed due to a temporary change in the IRS regulation. A System Change Request (SCR) was created to fix the issue. SCR 2925 consisted of two components: (1) Calculate the correct eligibility date and; (2) Provide a permanent fix to the system to ensure that future eligibility dates are updated correctly. The system fix was deployed on January 2, 2011. A sweep was performed after the system fix to ensure that no participants were missed. (We do note that although the January 2010 notifications were missed, all of the 10 participants did receive the next notification in March 2010.)

In the second case, the system criterion to include active participants was missing from the programming that generated the population to receive the October 2010 advanced notification RMD leaflet. This issue was resolved for the October 6, 2011 leaflet mailing which was sent to 19,084 active and separated participants who would be reaching age 70.5 in the 2012 calendar year. The Board reviewed the documentation in AG (document imaging system) and verified that both active and separated participants received the leaflet. The Agency considers this recommendation closed.

**AGENCY'S COMMENTS TO THE FINAL REPORT, CONTINUED**

**2011 Recommendation No. 3**

The Agency should enhance its management review of court order payments to ensure they are processed accurately in accordance with applicable court orders.

**Response:** We concur with the recommendation and have already taken steps to strengthen the payment determination, review, and payment process. Also, as noted below, the court order system redesign includes a system conversion of fractions and decimals to prevent this type of error.

We have strengthened our court order review process. A 3-step process is in place to review and process court orders. Initially, the analyst will review the court order and enter the information and payment calculation; next, a process verifier will review all of the entered identifying information and recalculate the payment determination to ensure it was correctly calculated; last, a payment verifier will determine if the payment was properly issued.

Further, the court order system redesign project currently underway includes an automatic method to calculate the percentage and/or fraction conversion that will determine the actual award amount. This will eliminate calculation conversion errors as noted in the recommendation and further strengthen the payment process. This recommendation will be considered closed by us with the implementation of the process.

**2011 Recommendation No. 4**

The Agency should verify that its corrective action related to the December 2010 erroneous RMDs adequately resolved the coding error to ensure the TSP system is properly identifying participants who are eligible for RMDs.

**Response:** We concur with this recommendation. Corrective actions were taken and results were tested and reviewed which provided an estimated number of accounts from which supplemental RMDs were due in December 2011. This number was also compared with previous years, allowing for normal increase in customer base. The supplemental RMD payments due to participants and spouse beneficiaries were processed successfully on December 23, 2011. The number of accounts affected was verified and consistent with earlier test results; a sample of individual accounts was also verified. 7,655 participants received RMD payments and 464 spouse beneficiaries received RMD payments. Implementing this recommendation provides the disbursement of the RMDs to only eligible participants at the appropriate time. The Agency considers this recommendation closed.

**Recommendations to Enhance Efficiency and Effectiveness:**

**2011 Recommendations: None**

**AGENCY'S COMMENTS TO THE FINAL REPORT, CONTINUED**

**Recommendations to Other Controls:**

**2011 Recommendation No 5:**

The Agency should complete its efforts to correct the configuration in DeDIS so that death benefits scheduled for Federal holidays are processed the next business day. Until the configuration in DeDIS is corrected, the Agency should perform periodic reviews of death benefit skeletal accounts greater than 60 days old to identify accounts requiring follow-up.

**Response:** We concur with this recommendation and have revised our approach to the timing of these disbursements. A System Change Request (SCR 4204) to address this issue is scheduled for release with the TSP Roth feature (second quarter 2012). The Death Document Imaging System (DeDIS) currently sets the automatic disbursement date to 60 calendar days from the date of establishment of the non-spouse beneficiary's skeletal account. If a beneficiary has not been issued a disbursement by the 45<sup>th</sup> day, the system generates a notification that informs the beneficiary of an automatic 30 day extension of the disbursement date. SCR 4204 will change the automatic disbursement date to 90 calendar days or the next business day if the 90<sup>th</sup> day is a weekend or holiday. SCR 4204 will also eliminate the automatic extension notice, and generate a reminder notification in its place. In addition, until the SCR has been implemented, there is a manual review that is performed by the Death Benefits Processing Unit (DBPU) analyst.