



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

September 4, 2015

MEMORANDUM TO THE EXECUTIVE DIRECTOR

FROM: JAY AHUJA, CHIEF RISK OFFICER

SUBJECT: Summary of Recent Audit Reports issued by U.S. Department of Labor

As part of the Fiduciary Oversight Program, the U.S. Department of Labor (DOL) Employee Benefits Security Administration (EBSA) conducts performance audits of the Thrift Savings Plan (TSP). For fiscal year 2015, DOL informed us of their intention to perform 16 performance audits which represented a substantial expansion of audit activity from previous years. The Federal Retirement Thrift Investment Board (Agency) staff has worked diligently to respond to the increased audit activity and has been working with the DOL staff and their contractors (KPMG) to address the audit requirements. During the months of July and August 2015, EBSA issued the following three audit reports:

- 1) Government Securities Investment Fund Investment Operations performance audit.
- 2) Loans Process performance audit.
- 3) Computer Access and Security Controls performance audit.

The objectives, scope, and results of each of the three audits are summarized below:

Government Securities Investment Fund Investment Operations Performance Audit:

The objectives of the audit were to determine if US Treasury implemented certain procedures related to i) accurately calculate G Fund interest rate and interest earned and report these to the Agency, (ii) notify Congress and Agency when a debt issuance suspension is necessary and when the suspension period ends and iii) restore the G Fund upon expiration of a debt issuance suspension period. Further, the objective was also to determine (i) if the Agency implemented procedures to report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods and to test compliance of the TSP G Fund investment operations with USC Title 5, Sections 8438(e)(2)(A), (g)(4-5), and (h)(1-2).

The scope period for testing was January 1, 2014 through December 31, 2014.

The audit report noted that the Agency met the audit objectives. The audit did not note any instances of non-compliance with the Federal Employees' Retirement System Act (FERSA) in the G Fund investment operations. Further, the results of

the audit noted no prior recommendations and the current audit produced no new recommendations.

Loans Process performance audit:

The objectives of the audit were to determine if the Agency implemented procedures to (i) process TSP loan transactions promptly and accurately in individual participant accounts and in the appropriate investment funds (ii) disburse TSP loans in accordance with regulations and participant authorization (iii) limit participation in the TSP loan program to participants who meet eligibility criteria and (iv) accurately record loan activity in the TSP accounting records. Further, the audit tested compliance with FERSA and applicable Agency Regulations and determined the status of prior open audit recommendations.

The scope period for testing was January 1, 2014 through December 31, 2014.

The audit noted that the Agency met the audit objectives. The audit did not note any instances of non-compliance with FERSA or Agency Regulations in the TSP loans process. Further, the results of the audit noted closure of one prior audit recommendation and produced no new recommendations.

The Computer Access and Security Controls performance audit:

The objectives of the audit were to determine if the Agency implemented procedures to: (i) establish, document, and enforce a security program for TSP systems, (ii) clearly define security administration and program responsibilities, (iii) restrict access to authorized individuals to the facilities, data center, media libraries, and critical information technology resources, (iv) enforce logical controls over TSP systems (v) protect TSP sensitive information, including personally identifiable information , and comply with Federal requirements (e.g., the Privacy Act) (vi) administer and remove user access to applications and (vii) incorporate risk management into the TSP IT security environment to assess an acceptable risk level.

The scope period for testing was January 1, 2014 through December 31, 2014.

The audit noted that the Agency met the audit objectives but noted internal control weaknesses in certain areas that could adversely affect the TSP computer access and security controls. The audit resulted in 10 new audit recommendations. In addition, six recommendations from previous years remain open. Of the six previous years' recommendations, four were partially implemented and two remain fully open.

The following is a summary of the open recommendations resulting from this audit:

Year of Audit	Number of recommendations	Designation of recommendations <sup>1</sup>
2015	10	All Fundamental
2013	2	1 Fundamental and 1 Other
2011	2	All Fundamental
2008	1	Fundamental
2007	1	Fundamental

The Agency has made a determination that public release of the full report, given the sensitive information it contains, will negatively impact the Agency activity to address the audit recommendations. As such, we are releasing only the Executive Summary section of the report (Appendix I).

The Office of Enterprise Risk Management (OERM) will continue to work with all appropriate Agency offices to resolve open audit recommendations. In addition, OERM will update the status of all open audit recommendations as well as target dates for completion on a monthly basis for a quarterly presentation to the Board.

#### Attachments

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<sup>1</sup> 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.

# Appendix 1

## **EXECUTIVE SUMMARY**

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

Ian Dingwall  
Chief Accountant  
U.S. Department of Labor, Employee Benefit Security Administration  
Washington, D.C.

As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of the Thrift Savings Plan computer access and security controls. Our fieldwork was performed from January 19, 2015 through February 27, 2015, primarily at the Federal Retirement Thrift Investment Board's Staff's (Agency) headquarters in Washington, D.C. and at the Agency's contractor's location in Virginia. Our scope period for testing was January 1, 2014 through December 31, 2014.

We conducted this performance audit in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate audit evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives. Criteria used for this audit is defined in the EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes the National Institute of Standards and Technology Special Publication 800-53, Revision 4, *Recommended Security Controls for Federal Information Systems and Organizations*.

The objectives of our audit over the TSP computer access and security controls were to:

- Determine whether the Agency implemented certain procedures to (1) establish, document, and enforce a security program for TSP systems; (2) clearly define security administration and program responsibilities; (3) restrict access to authorized individuals to the facilities, data center, media libraries, and critical information technology (IT) resources; (4) enforce logical controls over the TSP systems mainframe, operating system, network, and database environment and provide security consistent with Federal requirements; (5) protect TSP sensitive information, including personally identifiable information, and comply with Federal

requirements (e.g., the Privacy Act); (6) administer and remove user access to applications; and (7) incorporate risk management into the TSP IT security environment and assess an acceptable risk level for the major applications and overall operations.

- Determine the status of all prior EBSA TSP computer access and security controls open recommendations.

We present ten new recommendations related to TSP computer access and security controls, all of which address fundamental 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. Section III.C presents the details that support the current year findings and recommendations.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2014 through December 31, 2014, the Agency implemented certain procedures to (1) establish, document, and enforce a security program for TSP systems; (2) clearly define security administration and program responsibilities; (3) restrict access to authorized individuals to the facilities, data center, media libraries, and critical IT resources; (4) enforce logical controls over the TSP system mainframe, operating system, network, and database environment and provide security consistent with Federal requirements; (5) protect TSP sensitive information, including personally identifiable information, and comply with Federal requirements (e.g., the Privacy Act); (6) administer and remove user access to applications; and (7) incorporate risk management into the TSP IT security environment and assess an acceptable risk level for the major applications and overall operations. However, we noted internal control weaknesses in certain areas that could adversely affect the TSP computer access and security controls.

We also reviewed ten prior EBSA recommendations related to the TSP computer access and security controls process, to determine their current status. Section III.B documents the status of these prior recommendations. In summary, one recommendation has been implemented and closed, four recommendations have been partially implemented and remain open, two recommendations have not been implemented and remain open, and three recommendations were partially or not implemented but were closed and reissued under other recommendations.

The Agency's responses to the recommendations, including the Executive Director's formal reply,

are included as an appendix within the report (Appendix A). The Agency concurred with all of the recommendations, except for the classification of Recommendation No. 2015-10 as fundamental. However, because of the sensitive nature of participant data, we determined that this recommendation addresses fundamental controls.

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

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

**KPMG LLP**

July 17, 2015



## **Employee Benefits Security Administration**

### **Performance Audit of Thrift Savings Plan Government Securities Investment Fund Investment Operations**

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**August 7, 2015**

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KPMG LLP  
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## EXECUTIVE SUMMARY

Members of the Federal Retirement Thrift Investment Board  
Washington, DC

Fred Pietrangeli  
Director  
U.S. Department of the Treasury, Office of Debt Management  
Washington, DC

Ian Dingwall  
Chief Accountant  
U.S. Department of Labor, Employee Benefits Security Administration  
Washington, DC

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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) Government Securities Investment Fund (G Fund) investment operations. Our fieldwork was performed from February 24 through March 13, 2015 primarily at the U.S. Department of the Treasury (Treasury). We also performed procedures over debt issuance suspensions related to the G Fund investment operations at the Federal Retirement Thrift Investment Board (Board) from February 24 through March 13, 2015. Our scope period for testing was January 1, 2014 through December 31, 2014.

We conducted this performance audit in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 are

defined in the EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes United States Code (USC) Title 5, Chapter 84.

The objectives of our audit over the TSP G Fund investment operations were to:

- Determine if Treasury implemented certain procedures to (1) accurately calculate the G Fund interest rate and interest earned on G Fund investments; (2) accurately summarize and report G Fund investments and related earnings to the Board's Staff (Agency); (3) Promptly notify Congress and the Agency when a debt issuance suspension is necessary and when the suspension period ends; and (4) promptly and accurately restore the G Fund upon expiration of a debt issuance suspension period to the state it would have been in had the suspension not occurred.
- Determine if the Agency implemented certain procedures to promptly and accurately report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods.
- Test compliance of the TSP G Fund investment operations with USC Title 5, Sections 8438(e)(2)(A), (g)(4-5), and (h)(1-2).

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We noted no prior recommendations, and the current engagement produced no new recommendations.

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We determined that for the period January 1, 2014 through December 31, 2014, Treasury implemented certain procedures to (1) accurately calculate the G Fund interest rate and interest earned on G Fund investments; (2) accurately summarize and report G Fund investments and related earnings to the Agency; (3) Promptly notify Congress and the Agency when a debt issuance suspension is necessary and when the suspension period ends; and (4) promptly and accurately restore the G Fund upon expiration of a debt issuance suspension period to the state it would have been in had the suspension not occurred. In addition, we determined that for the period January 1, 2014 through December 31, 2014, the Agency implemented certain procedures to promptly and accurately report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods. As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA in the TSP G Fund investment operations.



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

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

*KPMG LLP*

August 7, 2015

## **I. BACKGROUND OF THE TSP AND THE TSP G FUND INVESTMENT OPERATIONS**

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

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System and provides a federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions April 1, 1987, and as of December 31, 2014, had approximately \$440 billion in assets and more than 4.7 million participants<sup>1</sup>.

The FERSA also established the Federal Retirement Thrift Investment Board (Board) and the position of Executive Director. The Executive Director 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.

The TSP is required to offer five investment options: the Government Securities Investment Fund (G Fund), the Fixed Income Investment Fund (F Fund), the Common Stock Index Investment Fund (C Fund), the Small Capitalization Stock Index Fund (S Fund), and the International Stock Index Investment Fund (I Fund). For the G-Fund, FERSA requires contributions to be invested in nonmarketable U.S. Treasury securities specially issued to the TSP. These securities earn interest at a rate that is equal, by law, to the average of market yields on U.S. Treasury marketable securities outstanding with 4 or more years to maturity as of the last business day of the prior month;

Additionally, the TSP offers the L Funds, which are portfolio funds comprised of the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to five different time horizons.

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<sup>1</sup> Source: Minutes of the January 26, 2015 Federal Retirement Thrift Investment Board Meeting, posted on [www.frtib.gov](http://www.frtib.gov).

## **B. TSP G Fund Investment Management Operations**

### The U.S. Department of the Treasury (Treasury)

The Secretary of the Treasury is authorized by FERSA to issue special interest-bearing obligations for purchase by the G Fund as long as such issuances do not cause the public debt of the United States to exceed the public debt limit. These obligations bear an interest rate equal to the average market yield for all marketable interest-bearing obligations of the United States forming a part of the public debt that are not due or callable within 4 years, as of the last business day of the preceding month.

The monthly interest rate for the G Fund is calculated by Treasury's Office of Debt Management using the Treasury Debt Management System (TDMS). Data entered into the system for this calculation includes:

- The outstanding face value of all marketable interest-bearing U.S. Government obligations that are not due or callable within 4 years, and the related coupon rate and maturity or call date (as applicable), obtained from Treasury's Bureau of the Fiscal Service; and
- The bid prices at the close of business as of the last business day of the prior month. These bid prices are obtained from the Federal Reserve Bank of New York and are based on a composite of bid prices reported by the major dealers in U.S. government securities.

Daily, the Bureau of Fiscal Service calculates interest on maturing G Fund investments by applying the interest rate provided by Treasury's Office of Debt Management. Treasury then reports this information to the Agency, through FedInvest, for use in the daily valuation of the G Fund.

Whenever special interest-bearing obligations cannot be issued for purchase by the G Fund because of the public debt limit, Treasury is required to immediately notify Congress and the Agency in writing. Once the debt issuance suspension period expires, Treasury must immediately issue the special interest-bearing obligations that would have been held by the G Fund and pay the related interest that would have been earned had the suspension not occurred. Treasury is also required to notify Congress and the Agency in writing that the suspension period has ended.

### The Agency

The G Fund is managed internally by the Agency, which is responsible for purchasing nonmarketable U.S. Treasury securities on behalf of TSP participants. Principal and interest on G Fund investments are guaranteed by the full faith and credit of the U.S. Government. To minimize G Fund market risk, the Agency has limited the investment of G Fund assets to U.S. Treasury obligations that mature the next business day. The Agency's selection of next business day maturities for G Fund investments is in accordance with the Board's policy to invest the G Fund in short-term securities.

On a daily basis, the Agency calculates the amount of funds to be invested in the G Fund, and submits an investment purchase request to Treasury using FedInvest<sup>2</sup>. Once the request is submitted, FedInvest produces an electronic confirmation with the details of the investment purchase.

### C. TSP Fund Statistics

The table below represents the rate of return on each of the TSP funds for the twelve months ended December 31 for each of the last 3 years<sup>3</sup>.

TSP Fund	12 Months Ended	12 Months Ended	12 Months Ended
	December 31, 2014 (unaudited)	December 31, 2013 (unaudited)	December 31, 2012 (unaudited)
G Fund	2.31%	1.89%	1.47%
F Fund	6.73%	(1.68%)	4.29%
C Fund	13.78%	32.45%	16.07%
S Fund	7.80%	38.35%	18.57%
I Fund	(5.27%)	22.13%	18.62%
L Income	3.77%	6.97%	4.77%

As of December 31, 2014, 35 percent (unaudited) of TSP assets were invested in the G Fund, as illustrated in Exhibit I-2. A summary of TSP investments held by the G, F, C, S, I and L Funds on December 31, 2014 and December 31, 2013, is also illustrated in Exhibit I-2.

<sup>2</sup> FedInvest is a Treasury web-based application that allows Federal agencies to buy and sell securities and view their investment account activity.

<sup>3</sup> Source: "Summary of Returns", posted on [www.tsp.gov/investmentfunds/returns/returnSummary.shtml](http://www.tsp.gov/investmentfunds/returns/returnSummary.shtml).

*Exhibit I-2*

TSP Fund	Fund Balances December 31, 2014 (unaudited) <sup>4</sup>	% of Total	Fund Balances December 31, 2013 (unaudited) <sup>5</sup>	% of Total
G Fund	\$153.89 billion	35%	\$146.91 billion	37%
F Fund	21.98 billion	5%	19.85 billion	5%
C Fund	123.11 billion	28%	103.24 billion	26%
S Fund	43.97 billion	10%	39.71 billion	10%
I Fund	21.98 billion	5%	23.82 billion	6%
L Funds	74.74 billion	17%	63.53 billion	16%
<b>Total<sup>6</sup></b>	<b>\$439.67 billion</b>	<b>100%</b>	<b>\$397.06 billion</b>	<b>100%</b>

<sup>4</sup> Source: Minutes of the January 26, 2015 Federal Retirement Thrift Investment Board Meeting, posted on [www.frtib.gov](http://www.frtib.gov).

<sup>5</sup> Source: Minutes of the January 27, 2014 Federal Retirement Thrift Investment Board Meeting, posted on [www.frtib.gov](http://www.frtib.gov).

<sup>6</sup> The balances of the L Funds are invested in the underlying five funds (i.e., G, F, C, S, and I Funds).

## **II. OBJECTIVE, SCOPE AND METHODOLOGY**

### **A. Objectives**

The U.S. Department of Labor, Employee Benefits Security Administration (EBSA) engaged KPMG LLP (KPMG) to conduct a performance audit of the Thrift Savings Plan (TSP) Government Securities Investment Fund (G Fund) investment operations.

The objectives of our performance audit were to:

- Determine if the U.S. Department of the Treasury (Treasury) implemented certain procedures to (1) accurately calculate the G Fund interest rate and interest earned on G Fund investments; (2) accurately summarize and report G Fund investments and related earnings to the Federal Retirement Thrift Investment Board's Staff (Agency); (3) Promptly notify Congress and the Agency when a debt issuance suspension is necessary and when the suspension period ends; and (4) promptly and accurately restore the G Fund upon expiration of a debt issuance suspension period to the state it would have been in had the suspension not occurred.
- Determine if the Agency implemented certain procedures to promptly and accurately report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods.
- Test compliance of the TSP G Fund investment operations with United States Code (USC) Title 5, Sections 8438(e)(2)(A), (g)(4-5), and (h)(1-2) (hereinafter referred to as FERSA).

### **B. Scope and Methodology**

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was January 1, 2014 through December 31, 2014. We performed the audit in four phases: (1) planning; (2) arranging for the engagement with Treasury and 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 G Fund operations. Arranging the engagement included contacting the Agency and Treasury 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, considered tests of controls included in Treasury's *Report on the Bureau of the Fiscal Service Federal Investments Branch's Description of its Investment/Redemption Services and the Suitability of the Design and Operating Effectiveness of Its Controls* (SSAE 16 – Type 2 Report), and designed and performed tests of compliance. We conducted these test procedures at Treasury and the Agency. In Appendix B, we identify the key documentation provided by Treasury and Agency personnel that we reviewed during our performance audit.

Our performance audit procedures included using random attribute sampling to select a specific sample of TSP G Fund investment transactions, which we used to determine if Treasury and the Agency processed TSP G Fund investment transactions in a manner that complied with FERSA. We selected the following sample in this manner:

- Debt suspension period transactions to determine if the Agency and Treasury made the required notifications for debt issuance suspension periods.

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Additionally, our performance audit procedures included testing non-statistical samples of the following information obtained from the Agency and Treasury:

- Treasury's Notes and Bonds Trust Fund Reports<sup>7</sup>; and
- Listing of investment transactions requested and processed during the debt issuance suspension period.

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

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<sup>7</sup> We did not test the Treasury's Bureau of the Fiscal Service's determination of the amount of United States debt outstanding included in the selected Notes and Bonds Trust Fund Reports. This information was used by the Treasury's Office of Debt Management to calculate the G Fund interest rate, and we relied upon it without further testing.

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

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### **III. FINDINGS**

#### **A. Introduction**

We conducted a performance audit of the Thrift Savings Plan (TSP) Government Securities Investment Fund (G Fund) investment operations and performed procedures primarily at the U.S. Department of the Treasury (Treasury). We also performed procedures over debt issuance suspensions related to the G Fund investment operations at the Federal Retirement Thrift Investment Board's Staff's (Agency) headquarters. Our scope period for testing was January 1, 2014 through December 31, 2014. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel, reviewing key reports and documentation (Appendix C), and observing selected procedures.

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We determined that for the period January 1, 2014 through December 31, 2014, Treasury implemented certain procedures to (1) accurately calculate the G Fund interest rate and interest earned on G Fund investments; (2) accurately summarize and report G Fund investments and related earnings to the Agency; (3) Promptly notify Congress and the Agency when a debt issuance suspension is necessary and when the suspension period ends; and (4) promptly and accurately restore the G Fund upon expiration of a debt issuance suspension period to the state it would have been in had the suspension not occurred. In addition, we determined that for the period January 1, 2014 through December 31, 2014, the Agency implemented certain procedures to promptly and accurately report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods. As a result of our compliance testing, we did not identify any instances of noncompliance with United States Code Title 5, Sections 8438(e)(2)(A), (g)(4-5), and (h)(1-2) in the TSP G Fund investment operations.

We noted no prior recommendations, and the current engagement produced no new recommendations.

**Agency's Response**

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD  
77K Street, N.E. Washington, DC 20002

August 7, 2015

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 Mr. Dingwall:

This is in response to KPMG's email of July 22, 2015, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Government Securities Investment Fund Investment Operations, dated August 7, 2015. My comments with respect to this report are enclosed.

We are pleased to note during the FY 2015 audit that the auditors did not identify any instances where TSP investment management operations did not comply with FERSA and with applicable Board regulations and bulletins for the period January 1, 2014 through December 31, 2014. We are very pleased to note that there are no audit recommendations.

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.

Sincerely,

Gregory T. Long

Enclosure

**Executive Director's Staff Comments on the  
Employee Benefits Security Administration's Performance Audit of the  
Thrift Savings Plan Government Securities Investment Fund Investment Operations  
Dated August 7, 2015**

**Recommendations to Address Fundamental Controls:**

**2015 Recommendations:** **None**

**Recommendations to Enhance Efficiency and Effectiveness:**

**2015 Recommendations:** **None**

**Recommendations – Other:**

**2015 Recommendations:** **None**



## Treasury's Response

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

AUG 7 2015

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 Mr. Dingwall:

Thank you for the opportunity to review and comment on the Employee Benefits Security Administration audit report as it relates to the Department of the Treasury's investment operations for the Government Securities Investment Fund (G Fund).

We note that the report finds:

*"We determined that for the period January 1, 2014 through December 31, 2014, Treasury implemented certain procedures to (1) accurately calculate the G Fund interest rate and interest earned on G Fund investments; (2) accurately summarize and report G Fund investments and related earnings to the Agency; (3) Promptly notify Congress and the Agency when a debt issuance suspension is necessary and when the suspension period ends; and (4) promptly and accurately restore the G Fund upon expiration of a debt issuance suspension period to the state it would have been in had the suspension not occurred. In addition, we determined that for the period January 1, 2014 through December 31, 2014, the Agency implemented certain procedures to promptly and accurately report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods. As a result of our compliance testing, we did not identify any instances of noncompliance with United States Code (USC) Title 5, Sections 8438(e)(2)(A), (g)(4-5), and (h)(1-2) in the TSP G Fund investment operations.*

*We noted no prior recommendations, and the current engagement produced no new recommendations."*

We agree with these findings and have no comments to add to the report.

Sincerely,

Kristine S. Conrrath  
 Deputy Assistant Secretary  
 Fiscal Operations and Policy

**KEY DOCUMENTATION AND REPORTS REVIEWED**

**U.S. Department of the Treasury's Documents and Reports**

*Bureau of the Fiscal Service*

- FedInvest Confirmation of Investment and Confirmation of Redemption, various 2014 dates
- Monthly Statement of the Public Debt of the United States, various dates
- "Operating Procedures During A Delay in Raising the Debt Limit - Thrift Savings Fund" Memorandum
- Daily calculations related to the G Fund during the Debt Issuance Suspension Period dated February 10, 2014 through February 18, 2014

*Office of Debt Management*

- Notes and Bonds Trust Fund Reports, various 2014 dates
- Quotations on Treasury Notes and Bonds, various 2014 dates
- Average Yield Recalculation Worksheet

*Office of the Inspector General*

- Report on the Bureau of the Fiscal Service Federal Investments Branch's Description of its Investment/Redemption Services and the Suitability of the Design and Operating Effectiveness of Its Controls (SSAE 16 – Type 2 Report), For the Period August 1, 2013 to July 31, 2014

**Federal Retirement Thrift Investment Board (Board) and the Board's Staff (the**

**Agency) Documents and Reports**

- Communication provided to, and received from the U.S. Department of the Treasury's Bureau of the Fiscal Service for each day during the Debt Issuance Suspension Period dated February 10, 2014 through February 18, 2014
- Monthly Board Meeting Minutes for the January 2014 through January 2015 meetings



## **Employee Benefits Security Administration**

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

**August 17, 2015**

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## **EXECUTIVE SUMMARY**

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

Ian Dingwall  
Chief Accountant  
U.S. Department of Labor, Employee Benefits Security Administration  
Washington, DC

As a 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) loans process. We performed our fieldwork from January 12 through June 2, 2015, primarily at the Federal Retirement Thrift Investment Board Staff's (Agency) headquarters in Washington, DC. Our scope period for testing was January 1, 2014 through December 31, 2014.

We conducted this performance audit in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit objectives. Criteria used for this engagement are defined in the EBSA's *Thrift Saving Plan Fiduciary Oversight Program*, which includes United States Code (USC) Title 5, Chapter 84, and Code of Federal Regulations (CFR) Title 5, Chapter VI.

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

- Determine whether the Agency implemented certain procedures to (1) process TSP loan transactions promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (2) disburse TSP loans in accordance with regulations and participant authorization; (3) limit participation in the TSP loan program to participants who meet eligibility criteria; and (4) accurately record loan activity in the TSP accounting records.
- Test compliance of the TSP loans process with 5 USC, Sections 8433(g) and 8439 (hereinafter referred to as FERSA); and 5 CFR, Parts 1655.13, 1655.14, 1655.14(f), 1655.15, 1655.16,

1655.18b, 1655.2, 1655.2(a), 1655.21, 1655.4, 1655.6, and 1655.9(a -d) (hereinafter referred to as Agency Regulations).

- Determine the status of the prior EBSA TSP open recommendation reported in *Performance Audit of the Thrift Savings Plan Loan Process as of October 18, 2010*.

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We determined that for the period January 1, 2014 through December 31, 2014, the Agency implemented certain procedures to (1) process TSP loan transactions promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (2) disburse TSP loans in accordance with regulations and participant authorization; (3) limit participation in the TSP loan program to participants who meet eligibility criteria; and (4) accurately record loan activity in the TSP accounting records. As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA or Agency Regulations in the TSP loans process. The current engagement produced no new recommendations.

We also reviewed one prior EBSA recommendation related to the TSP loans process to determine its current status. This prior year recommendation was reported in *Performance Audit of the Thrift Savings Plan Loan Process as of October 18, 2010*. Section III.B documents the status of this prior recommendation. In summary, the recommendation has been implemented and closed.

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

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

*KPMG LLP*

August 17, 2015

## **I. BACKGROUND OF THE TSP AND THE LOANS PROCESS**

### **A. THE THRIFT SAVINGS PLAN**

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Saving Plan (TSP). TSP is the basic component of the Federal Employees' Retirement System (FERS) and provides a federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions on April 1, 1987, and as of December 31, 2014, had approximately \$440 billion in assets and more than 4.7 million participants<sup>1</sup>.

In May 2012, the TSP began accepting Roth (after-tax) TSP employee contributions. As of December 31, 2014, the TSP had approximately \$2 billion in Roth-related assets and approximately 420,000 Roth participants<sup>2</sup>.

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

### **B. OVERVIEW OF THE TSP LOANS PROCESS<sup>3</sup>**

#### **1. Loan Requirements – Borrowing Rules**

Actively employed TSP participants may borrow a part of the amount that they have contributed along with related earnings. Retired, separated, or employees in non-pay status at the time of the loan are not eligible to borrow funds from their contributions. Agency automatic amounts, first conversion amounts, matching amounts, and related earnings on agency-matched amounts cannot be borrowed.

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<sup>1</sup>Source: Minutes of January 26, 2015, Federal Retirement Thrift Investment Board meeting, posted on [www.frib.gov](http://www.frib.gov).

<sup>2</sup>Source: Minutes of January 26, 2015, Federal Retirement Thrift Investment Board meeting, posted on [www.frib.gov](http://www.frib.gov).

<sup>3</sup> Sources: TSP Loan Booklet – *Loans*, February 2013; TSP Bulletin 05-16, *Processing Thrift Savings Plan Loan Payments in the TSP Record Keeping System*; Agency *Loans Policy*; Agency *Loans Procedures*

TSP loans can be obtained for the purchase of a primary residence or for general purposes. Documentation of the need for a general purpose loan is not required, but certain documentation is required for a residential loan such as copies of the purchase contract, settlement sheet, or other documentation to prove the cost and address of the residence. Prior to the distribution of a loan, documentation is reviewed to determine if all information applicable to the loan is appropriate and complete.

Loan applicants specify the amount of time they want to repay the loan in years and months, but not more than 5 years or 60 months for a general purpose loan or 15 years or 180 months for a residential loan. Both the EX AG Image system (AG) (for paper loan applications received) and the web interface (for loan applications completed on-line) perform edit checks to ensure that the following key requirements are met:

- The participant must be an active Federal employee or uniformed service member;
- The participant must have at least \$1,000 of his/her own contributions, including related earnings, in his/her account as the smallest amount a participant can borrow is \$1,000;
- The loan must comply with Internal Revenue Code (IRC)<sup>4</sup> requirements such that the borrowed amount cannot exceed the lesser of the following: (1) contributions and earnings in the participant's account, not including any outstanding loan balance; (2) 50 percent of a participant's total vested account balance (including any outstanding loan balance) or \$10,000, whichever is greater, minus any outstanding loan balance; or (3) \$50,000 less the participant's highest outstanding loan balance, if any, during the last 12 months. Therefore, a participant's total outstanding loan principal balance may not exceed \$50,000 at any given time.
- If the participant has a civilian account and a uniformed service account, the combined account balances and loan balances will be used when meeting IRC requirements 2 and 3.
- Participants cannot have two loans of the same type outstanding at the same time in the same account type (i.e. civilian account vs. uniformed services account) but are allowed to have one general purpose loan and one residential loan outstanding simultaneously.
- Participants who pay off their TSP loans are not eligible to apply for another loan of the same type for 60 calendar days after full repayment.

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<sup>4</sup> IRC Title 26 Chapter 72(p)(2)(A).

## **2. Loan Application Process**

Participants complete Form TSP-20, *Loan Application*, to apply for a TSP Loan. The loan application can be requested through the TSP website, the ThriftLine (TSP's automated telephone service), the participant's Federal agency/service personnel office, or a Participant Support Representative (PSR) at the TSP call center. Participants may also apply for a loan on-line, via the TSP website, and depending on their retirement system coverage, marital status, the type of loan, and method selected for receipt of funds, may complete the loan process on-line.

### **Paper Loan Requests**

The completed paper loan applications (Form TSP-20) are mailed or faxed directly to the TSP Service Bureau for scanning and data entry. The TSP Service Bureau is responsible for providing efficient, accurate, and timely processing of these loans. The TSP Service Bureau is charged with reviewing and approving loan agreement packages for all applications that are not or cannot be submitted via the TSP website. Once the TSP Service Bureau receives the completed loan package from the participant, it reviews the supporting documentation supplied in the loan package, if a residential loan, to verify that all required documentation has been received. The following explains the specific requirements for the two types of loans:

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- General purpose loan - Documentation of the reason requested is not required.
  - Residential loan - A primary residence can be a house, condominium, a share in a cooperative housing corporation, a mobile home, townhouse, a boat, or a recreational vehicle, but it must be used as the participant's primary residence. The participant must be either purchasing an existing residence (whole or in part) or constructing a new residence. A loan may not be used for refinancing an existing mortgage or for renovations.

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After ensuring all documentation was properly submitted to the TSP Service Bureau, a TSP operator scans the received forms and documents into AG. AG handles the workflow and document storage requirements for the TSP system by facilitating the processing (including manual data entry) of TSP forms and correspondence. The Automatic Data Correction (ADC) tool within AG scans all paper loan applications received for completeness and accuracy of data and obvious errors. The ADC tool performs various edit checks on the applications received to determine whether any suspected errors or discrepancies exist. If such items exist, they are

highlighted for the data entry operator to determine whether any errors occurred. If the data imaged matches the data on the forms, the data entry operator forwards the forms to quality control (QC). If data imaged does not match the form, or is missing or invalid, and the data entry operator is unable to correct, identify, or determine what information was entered on the loan application form, the form is rejected or sent to quality control (QC) review for a more experienced operator to review the information. If a QC reviewer cannot determine the information on the participant's form, the form is subsequently rejected and sent back to the participant for correction and resubmission. AG rejects forms that contain errors and processes a reject notice that is mailed to the participant. Resubmitted applications are reprocessed in the same manner as initial applications going through the initial data entry checks along with a final QC review.

If the applications are determined to be free of errors, AG uploads the applications in OMNI for the nightly unified processing cycle. During the unified nightly processing cycle, OMNI, the host record keeping processor in the TSP system, performs additional edit checks on the loan applications and generates a Form TSP-21-G or Form TSP-21-R, *Loan Agreement*, if the system edit checks are passed. Some edit checks which the OMNI system performs include verifying that the participant is currently active (or in pay status), determining if sufficient funds exist within the participant's account (minimum of \$1,000) to process the loan, ensuring a loan was not closed within 60 days if paid normally or within 365 days of a taxable distribution, and ensuring that the participant does not currently have outstanding loans of the same type (general purpose/residential). The Form TSP-21-G is generated from OMNI for a general purpose loan and a Form TSP-21-R is generated from OMNI for a residential loan. Each agreement is preprinted with pertinent loan data, including the loan number and participant information, and is mailed to the participant for completion.

Both types of loan agreements denote the loan amount requested, the interest rate<sup>5</sup>, loan payment period requested, the number of loan payments, the amount of each loan payment, the total interest charge, and the total payment amount. The participant must complete the loan agreement by signing and returning the Form TSP-21-R or Form TSP-21-G, provide any other required documentation (such as residential documentation), and return the forms and completed documentation to the TSP Service Bureau before the expiration date located at the top of the agreement. A loan request not completed by its expiration date expires, and the participant is required to submit a new application for loan (Form TSP-20).

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<sup>5</sup> Interest over the life of the loan is calculated using the latest available TSP Government Securities Investment Fund (G Fund) rate at the time the participant's application is processed.

If the participant has requested a residential loan, in addition to signing the Form TSP-21-R as stated above, the participant also must provide copies of the purchase contract, settlement sheet, or other documents to show the cost and address of the residence, or additional documentation needed depending on the type of residence being purchased. If the participant is a married FERS employee or a married uniformed services member, spousal consent to the loan by signing the loan agreement is required; for married Civil Service Retirement System (CSRS) participants, the TSP is required to notify the spouse when the participant applies for a loan. In certain instances, a FERS or CSRS participant may receive a spousal waiver if he/she can show that the spouse's whereabouts is unknown; additionally, a FERS or uniformed service participant may receive a spousal waiver if exceptional circumstances make it inappropriate to secure the spouse's consent.

All loan agreements sent to the TSP Service Bureau are scanned into AG and sent through the same process as noted for a loan application. Additional edit checks are performed on the loan agreements to verify their accuracy and completeness. The system or a QC reviewer then determines whether a loan should be approved. In addition, the documentation for a residential loan is reviewed by a QC reviewer to ensure sufficiency before the loan agreement can be processed.

Loan agreements for CSRS participants are sent to OMNI marked with a two-day hold, to allow time for spousal notification, if required. All successful transactions are sent to OMNI for verification and nightly processing where additional edit checks are performed to ensure the participant is still eligible to receive a general purpose or residential loan based on eligibility criteria.

#### **Electronic Loan Requests**

Participants can complete loan applications via the TSP web interface to the OMNI system. The TSP web interface performs various edits on the data that the participants enter. Participants are alerted to any detected errors on-line and cannot submit the application without correcting the errors. Successful submission of the on-line loan application results in the immediate generation of a loan agreement provided it passes the additional OMNI edit checks previously discussed. In these cases, once the loan applications are approved, the loan agreements are displayed on the participants' computer screen, and in certain cases, the participants can complete the required information and submit the loan for processing on-line. Participants whose loans were approved on-line can print out their forms from the TSP website. Participants who are not eligible to

complete their loan agreements on-line must print, complete, and mail or fax them to the TSP Service Bureau for processing.

### **3. Loan Disbursement and Payment**

Once the loan has been approved, the loan is scheduled for disbursement. The TSP disburses loans either through an electronic funds transfer (EFT) or by check as indicated by the participant. The loan principal is disbursed from that portion of the account represented by employee contributions and attributable earnings, pro rata from each TSP Fund in which the account is invested and pro rata from tax-deferred and tax-exempt balances. The OMNI system generates a confirmation notice that is mailed to the participant the same day or within one business day of the loan disbursement.

Prior to and after disbursement of a loan, participants can access their loan amortization terms which indicates the number of payments, principal amount, and interest amount to be paid at each pay date. Participants may reamortize their loans at any time in order to lower their loan payments or to change their term of repayment. However, any loan reamortized must still comply with TSP requirements for a maximum 5 year loan term for general purpose loans and a 15 year loan term for residential loans.

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A \$50 fee is charged for each new loan. The fee is automatically deducted from the proceeds of the loan at disbursement and is posted to the TSP's general ledger on a daily basis from the TSP 3405, *Investment True-Up of Trade Report: OmniPay Loan Disbursements (Actuals)*.

OMNI interfaces with Savantage, TSP's accounting system, to transfer loan disbursement data. The Accounting Division within the Office of Financial Management performs various daily reconciliations between Savantage, OMNI, the U.S. Department of the Treasury (Treasury), and the Federal Reserve Bank to ensure completeness, existence, and accuracy of the disbursed funds.

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Upon completion of the loan disbursement, a TSP 19401, *Loan Status Report*, which contains pertinent employee information, is sent electronically to the participant's Federal agency or uniformed service payroll office to initiate payroll deductions from the participant's pay. TSP 19401s are sent to agencies daily. These reports are only sent to payroll agencies regarding a participant if (1) a loan has been disbursed and payments are required to be withheld from the participant's paycheck, (2) the loan has been paid off or been declared a taxable distribution and payments should cease, or (3) the loan has been changed or reamortized and the payment

previously withheld has changed. Federal agency and the uniformed services payroll offices use either the (1) discretionary allotment method, or (2) the journal voucher method to submit loan payments to the TSP.

As previously mentioned, TSP loan payments are received via the payroll deductions and submitted via the Agency Payroll Interface (API), which is a key application that supports and processes submissions by Federal agencies and the uniformed services. Scheduled loan payments must be made through payroll deductions, and participants are responsible for ensuring that loan payments are being properly withheld from their paychecks. Additional payments can be made directly to the TSP via personal checks submitted to the US Bank lockbox at the discretion of the participant. Upon posting to the participant's account, loan payments are credited to the appropriate TSP Fund in accordance with the participant's most recent contribution allocation and credited to the participant's tax-deferred and tax-exempt balances in the same proportion that the loan was distributed from the participant's account.

Payroll offices and the uniformed services primarily provide payment services with respect to loan operations. They withhold participant deductions for loan payments and deposit payments to the TSP's Treasury account.

#### **4. Treatment of Loan Prepayments, Refunds, and Delinquencies**

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##### **Loan Prepayments**

Participants can prepay their loans in full or with partial payments without a prepayment penalty. A full prepayment is the payment of the entire outstanding loan balance prior to the scheduled loan maturity.

Participants may either call the ThriftLine or a PSR or visit the TSP website ([www.tsp.gov](http://www.tsp.gov)) to determine their exact outstanding loan amounts. The prepayment amount will include all unpaid principal and accrued interest at the time of the request plus 30 days of upcoming interest. The participant sends the payment along with a loan payment coupon to the TSP for processing. All checks must be made payable to the Thrift Saving Plan, include the loan number and social security number, and be sent by the participant to the TSP lockbox at US Bank. Personnel at the lockbox review the loan payment coupon and/or check to ensure all required information is submitted and valid. If all information is present, the check is processed. If information is missing, the check is returned to the participant. Items submitted to the lockbox must be processed by the next business

day after receipt. Funds are usually posted to the participant's account the day after they have been processed by the lockbox. Loan prepayments are invested according to the participant's percentage share of contributions at the time the loan was received. The TSP sends the participant a confirmation whenever a partial or full payment has been made on a loan. Images of the check, payment coupon, and other correspondence are scanned into AG and stored. Once the loan is closed, the applicable payroll office or uniformed service is notified via the TSP 19401.

### **Loan Refunds**

A participant is entitled to a refund when his/her loan account has been overpaid by \$10 or more because the payment is greater than the amount due and/or a loan allotment is received from the employing office when that loan has already been paid in full. Refunds issued to participants occur daily.

### **Loan Delinquencies**

On a quarterly basis, a loan sweep is performed in OMNI to identify participants who are at least two and a half payments behind on their loan. When a participant is behind two and a half payments or more at the end of a quarter, the loan is considered delinquent. A delinquent notice is sent informing the participant of the delinquency and instructing the participant to make the required principal and interest payments by the end of the current quarter. A subsequent delinquent notice is sent to the participant in the middle of the quarter reminding the participant of the pending taxable distribution if a sufficient payment is not made.

If the appropriate amount is not posted to the loan account by the end of the current quarter, a taxable distribution is declared. Taxable distributions are documented on the Internal Revenue Service Form 1099-R and sent to the participant no later than the end of January of the following year. Taxable distributions are based on the unpaid outstanding loan amount, including interest owed, and determined by the taxable and non-taxable basis of the loan disbursement.

When participants separate from Federal service, they receive a notice stating that they have been separated from their previous agency and must repay the loan in full within 90 days of the notice or receive a taxable distribution. Participants may then repay the loan balance, receive a taxable distribution, or submit documentation stating they are employed with another eligible agency or military branch. Generally, no inactive loan balances are older than 90 days other than for participants on approved non-pay status.

If a participant is on approved non-pay status or has been in a regular non-pay status for more than one year (unless related to military service), he/she must make loan payments from his/her personal funds to avoid being in default. When a participant returns from non-pay status, his/her loan is reamortized, and the participant is required to begin making payments based on the new amortization schedule. If the participant fails to make the required payments on the reamortized loan, he/she is subject to the delinquency process discussed above. Participants that enter non-pay status to perform military service are permitted to suspend payments on their loans until they return to pay status. Interest continues to accrue during this period. The maximum time limits for repayment are extended by the length of military service.

The primary method to document non-pay status is the submission of Form TSP-41, *Notification to TSP of Nonpay Status*, by the employing agency; the Form TSP-41 should include the intended start date of the non-pay status and the type of non-pay status (Military or Non-Military). If the agency does not submit the Form TSP-41, a SF-50, *Notification of Personnel Action*; military orders; or letter from the agency with all the required information is also accepted. These forms are scanned into AG and stored for record keeping. Upon return from non-pay status, the aforementioned forms should be submitted by the participant's agency to indicate a return from non-pay status. During approved non-pay status, participants are excluded from the quarterly default loan sweeps performed.

Participants who transfer to another Federal agency or uniformed service are responsible for ensuring that correct loan payments continue upon transfer. Participants are instructed to notify the TSP if they transfer or change payroll offices or services.

## 5. TSP Loan Statistics

TSP loans have been disbursed since the inception of the loan program on January 1, 1988. Exhibit II-1 on the following page illustrates total loan dollars disbursed<sup>6</sup> during the last five calendar years. TSP loan disbursements decreased approximately \$297 million or 7 percent, from calendar year 2013 to calendar year 2014. Exhibit II-2 on the following page presents the number of loans disbursed during the last five calendar years<sup>7</sup>. The number of loans processed decreased by 26,648, or 9 percent, from calendar year 2013 to calendar year 2014.

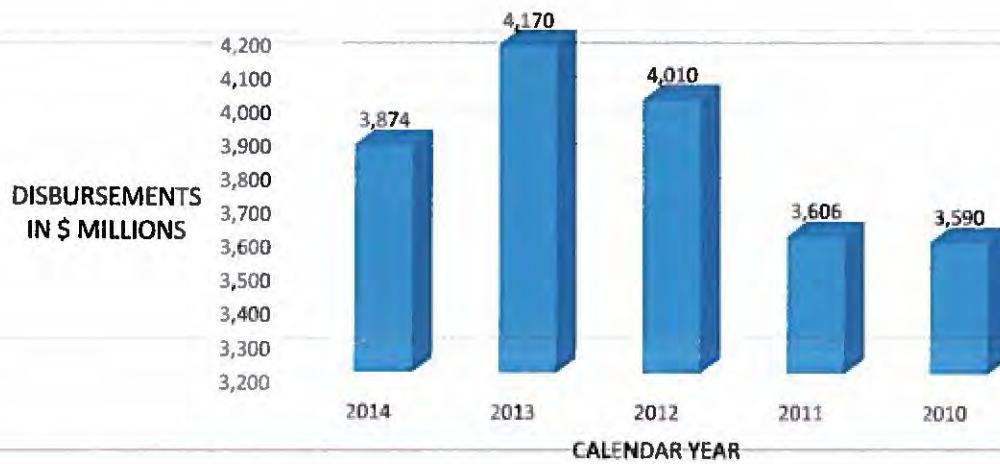
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<sup>6</sup> Source: TSP 6001, *Cumulative Disbursement Reports* (January 2010 through December 2014)

<sup>7</sup> Source: TSP 6001, *Cumulative Disbursement Reports* (January 2010 through December 2014)

*Exhibit II-1*

### TSP Loan Disbursement Dollars, by Calendar Year (Unaudited)



## Number of TSP Loans Disbursed, by Calendar Year (Unaudited)

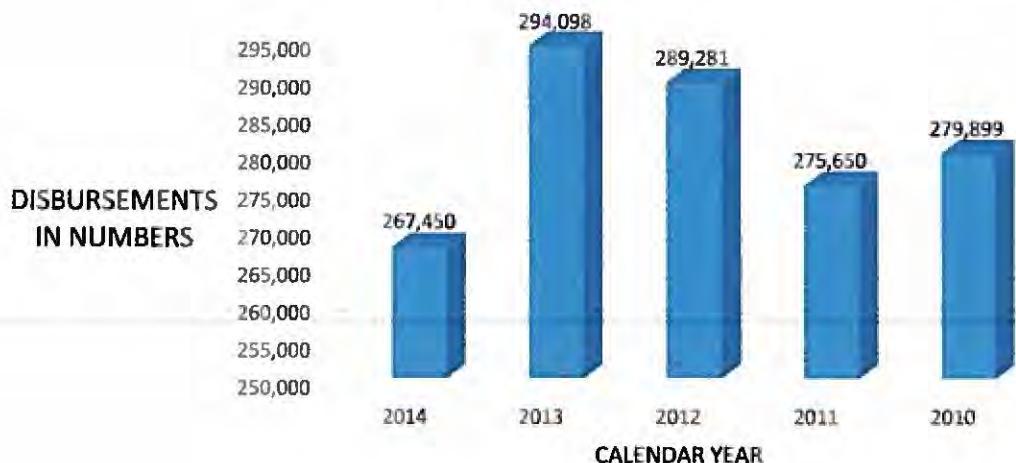
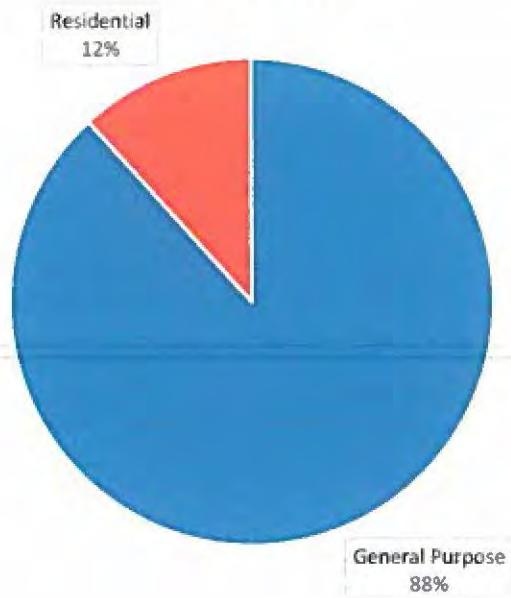


Exhibit II-3 below illustrates the percentage of loan dollars disbursed by loan type for calendar year 2014<sup>8</sup>. The higher percentage of the two loan types, in terms of both dollars and number, is for general purpose loans. In calendar year 2014, approximately \$3.42 billion in general purpose loans were disbursed, which represented 88 percent of total loan disbursements. This percentage is consistent with calendar year 2013 loan disbursements.

<sup>8</sup> Source: TSP 6001, *Cumulative Disbursement Report* (January 2014 through December 2014)

*Exhibit II-3*

TSP Loan Dollars Disbursed by Type during Calendar Year 2014  
(Unaudited)



## **II. OBJECTIVE, SCOPE, AND METHODOLOGY**

### **A. Objectives**

The U.S. Department of Labor Employee Benefits Security Administration (EBSA) engaged KPMG LLP (KPMG) to conduct a performance audit of Thrift Saving Plan (TSP) loans process.

The objectives of our performance audit were to:

- Determine whether the Federal Retirement Thrift Investment Board's Staff (Agency) implemented certain procedures to (1) process TSP loan transactions promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (2) disburse TSP loans in accordance with regulations and participant authorization; (3) limit participation in the TSP loan program to participants who meet eligibility criteria; and (4) accurately record loan activity in the TSP accounting records.
- Test compliance of the TSP loans process with United States Code Chapter 5, Sections 8433(g) and 8439 (hereinafter referred to as FERSA); and Code of Federal Regulations Title 5, Parts 1655.13, 1655.14, 1655.14(f), 1655.15, 1655.16, 1655.18b, 1655.2, 1655.2(a), 1655.21, 1655.4, 1655.6, and 1655.9(a -d) (hereinafter referred to as Agency Regulations).
- Determine the status of the prior EBSA TSP open recommendation reported in *Performance Audit of the Thrift Savings Plan Loan Process as of October 18, 2010*.

### **B. Scope and Methodology**

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was January 1, 2014 through December 31, 2014. We performed the audit in four phases: (1) planning, (2) arranging for engagement with the Agency, (3) testing and interviewing, and (4) report writing.

The planning phase was designed to assist team members to develop a collective understanding of the activities and controls associated with the applications, processes, and personnel involved with the TSP loans process. Arranging the engagement included contacting the Federal Retirement

Thrift Investment Board's Staff (Agency) and agreeing on the timing of detailed testing procedures.

During the testing and interviewing phase, we conducted interviews, collected and inspected auditee-provided documentation and evidence, participated in process walk-throughs, and designed and performed tests of controls and compliance<sup>9</sup>. We conducted these test procedures primarily at the Agency's headquarters in Washington, DC. In Appendix B, we identify the key documentation provided by Agency personnel that we reviewed during our performance audit.

Our performance audit procedures included using random attribute sampling to select specific samples related to TSP loans, which we used to determine if the Agency processed, disbursed, and managed loans in a manner that complied with FERSA and Agency regulations. We selected the following samples in this manner:

- Loans disbursed during 2014
- Loan payments made during 2014
- Participants to whom a second loan was disbursed while another loan was outstanding during 2014
- Loans paid in full during 2014
- Loans with participant-initiated payments during 2014
- Participants for whom a taxable distribution was declared during 2014
- Participants with loans who entered non-pay status during 2014
- Participants with loans who entered non-pay status during 2013
- Loans re-amortizations during 2014
- Loan fees received during 2014
- Participants with loans which were approaching default during 2014

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

- Daily Federal Reserve Board reconciliations during 2014 to determine if payments disbursed by the Federal Reserve Bank were accurately recorded in the TSP's general ledger.

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<sup>9</sup> We tested certain information technology edit checks performed over the loan application process subsequent to the scope period and in a test environment. The Agency represented that such edit checks were functionally and technically the same as those designed and operating in the production environment from January 1, 2014 through December 31, 2014. In addition, we tested the requirements underlying the edit checks in our 2014 compliance procedures.

- Daily lockbox (SF-215) reconciliations during 2014 to determine if participant-submitted payments to the lockbox were accurately recorded in the TSP's general ledger.
- Daily SF-1166 Omni Pay to Omni Plus reconciliations during 2014 to determine if loan information between the two TSP systems agree.
- Daily reconciliation of outstanding loans during 2014 to determine if the TSP's general ledger accurately included disbursed loan activity.
- Daily Loan Reports to determine if loan activity was accurately recorded in the TSP's general ledger.

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

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

### **III. FINDINGS**

#### **A. Introduction**

We performed procedures related to the Thrift Savings Plan (TSP) loan process while conducting a performance audit primarily at the Federal Retirement Thrift Investment Board's (the Board) Staff (Agency) headquarters. Our scope period for testing was January 1, 2014 through December 31, 2014. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel, reviewing key reports and documentation (Appendix B), and observing selected procedures.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We determined that for the period January 1, 2014 through December 31, 2014, the Agency implemented certain procedures to (1) process TSP loan transactions promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (2) disburse TSP loans in accordance with regulations and participant authorization; (3) limit participation in the TSP loan program to participants who meet eligibility criteria; and (4) accurately record loan activity in the TSP accounting records.

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As a result of our compliance testing, we did not identify any instances of noncompliance with United States Code Chapter 5, Sections 8433(g) or 8439; or Code of Federal Regulations Title 5, Parts 1655.13, 1655.14, 1655.14(f), 1655.15, 1655.16, 1655.18b, 1655.2, 1655.2(a), 1655.21, 1655.4, 1655.6, or 1655.9(a -d).

We also reviewed one prior U.S. Department of Labor Employee Benefits Security Administration recommendation related to the TSP loans process to determine its current status. This prior year recommendation was reported in *Performance Audit of the Thrift Savings Plan Loan Process as of October 18, 2010*. Section III.B documents the status of this prior recommendation. In summary, the recommendation has been implemented and closed.

The current engagement produced no new recommendations.

#### **B. Finding and Recommendation from Prior Reports**

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

**2009 Loan Process Recommendation No. 1:**

<u>Original Recommendation:</u>	The Agency should evaluate the specific causes of the deficiencies identified and develop the appropriate corrective action to ensure that (a) participants who received pending default notices are sent reminder notices approximately mid-quarter if the missing payments have not been cured, and (b) taxable distributions are declared timely for all defaulted loans with missing payments that are not cured by the required due date.
<u>Reason for Recommendation:</u>	During our 2009 testing of the TSP loan default program, we statistically selected 58 loans identified as having delinquent payments for testing. As a result of our testwork, we identified the following exceptions related to delinquent loans: (1) for 8 of the loans selected, a mid-quarter reminder notice was not sent out by the TSP even though the participant had not caught up all of the missing payments, (2) for 6 of the loans selected, we noted that a taxable distribution was not declared for the outstanding balance of the defaulted loans even though the participants had not paid all of their missing payments by the required due date, and (3) for 5 of the loans selected, we noted that a taxable distribution was not declared for the outstanding balance of the defaulted loans timely (i.e., by the end of the quarter in which the pending loan default notice was sent).
	In addition, we non-statistically selected 58 loan payments for testing. During this testwork, we identified one participant that was missing several loan payments during calendar year 2009. The Agency identified the participant as being delinquent; however, the Agency did not send a mid-quarter reminder notice nor was a taxable distribution declared for the outstanding balance of the defaulted loan.
<u>Status:</u>	<b>Implemented.</b> During our current year testing procedures, we determined that the Agency implemented a System Change Request (SCR) to address the lack of production edits that led to the conditions identified in the prior report's finding. The production edits implemented were designed to:

- Ensure that a participant with delinquent loan payments receives a mid-quarter reminder notice if the loan has not been properly resolved by a participant-submitted payment.
- Ensure that during the quarter, a loan continues to show as pending taxable distribution if the delinquent loan payments have not been properly resolved by a participant-submitted payment.
- Ensure that participants with delinquent loan payments receive a taxable distribution at the end of the quarter unless resolved during the quarter either by a participant-submitted payment or by adequate additional agency payments beyond what is scheduled.

We noted that the SCR process was completed with the changes placed into production in June 2014.

In addition, we non-statistically selected 58 loans identified as having delinquent payments during our scope period for testing. For each sample item, we reviewed the Agency's EX AG system and determined that a default notice was issued to the participant; a mid-quarter reminder notice was issued to the participant if the participant had not cured the delinquency subsequent to the initial notice; and a subsequent taxable distribution was declared and distributed if the participant did not submit sufficient payment. We noted no exceptions as a result of this testing.

Disposition: **Recommendation Closed.**

AGENCY'S RESPONSE



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

August 17, 2015

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

Dear Ian:

This is in response to KPMG's email of August 7, 2015, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Loan Process, dated August 17, 2015. My comments with respect to this report are enclosed.

We are pleased to note during the FY 2015 audit that the auditors did not identify any instances where TSP did not comply with FERSA and with applicable Board regulations and bulletins for the period January 1, 2014 through December 31, 2014. We are very pleased to note that there are no audit recommendations.

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

Very truly yours,

Gregory T. Long

Enclosure

**Executive Director's Staff Comments on the  
Employee Benefits Security Administration's Performance Audit of the  
Thrift Savings Plan Loan Process  
Dated August 17, 2015**

**Recommendations to Address Fundamental Controls:**

**2015 Recommendations:** None

**Recommendations to Enhance Efficiency and Effectiveness:**

**2015 Recommendations:** None

**Recommendations – Other:**

**2015 Recommendations:** None

**KEY DOCUMENTATION AND REPORTS REVIEWED****Federal Retirement Thrift Investment Board Documents and Reports**

- TSP Bulletin 05-16, *Processing Thrift Savings Plan Loan Payments in the TSP Record Keeping System*, dated November 2005
- TSP Bulletin 07-3, *TSP Loan Default Process*, dated October 2007
- TSP Bulletin 10-7, *Participation in the Thrift Savings Plan*, dated July 2010
- TSP Bulletin 11-8, *Thrift Savings Plan Payroll Office Reports*, dated September 2011
- TSP Bulletin 12-20, *Effect of Nonpay Status on Thrift Savings Plan Participation*, dated August 2012
- Summary of the Thrift Savings Plan, dated March 2015
- TSP Loans Booklet, dated February 2013
- TSP Web Site, from January - April 2015
- TSP Fact Sheet, *Effect of NonPay Status on TSP Participation*, dated February 2013
- TSP-20 (TSP-U-20), *Loan Application*
- TSP-21G (TSP-U-21G) and TSP-21R, *Loan Agreement*
- TSP-41 (TSP-U-41), *Notification to TSP of NonPay Status*
- Form 1099-R *Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*
- TSP Report 3405, *Investment True-Up Report Loan Disbursements*, for selected dates during our scope period of January 1 through December 31, 2014
- TSP Report 3040, *Loans-Receivable and Earned Interest*, for selected dates during our scope period of January 1 through December 31, 2014
- TSP Report 3402, *Investment True Up of Trades Report: Loan Payments*, for selected dates during our scope period of January 1 through December 31, 2014
- TSP Report 3302, *Investment Pre-note of Trades Report*, for selected dates during our scope period of January 1 through December 31, 2014
- TSP 6001, *Cumulative Disbursements Report*, for January 2014 through December 2014
- LC/LU 201, *Loan Reamortization Confirmation Notice*
- LC/LU 401, *Pending Taxable Distribution Notice*
- LC/LU 402, *5118 Term Limit Notice*
- LC/LU 403, *Loan Taxable Distribution Notice*
- LC/LU 406, *Loan Taxable Distribution Reminder*
- LC/LU 502, *Loan Paid in Full Notice*
- LC/LU 601, *Nonpay Confirmation Notice*
- All active loans (general purpose and residential) during the period of January 1, 2014 through December 31, 2014

## **APPENDIX B**

### **KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED**

- All loans disbursed during the period of January 1, 2014 through December 31, 2014
- Participants to whom a second loan was disbursed while another loan was outstanding during the period of January 1, 2014 through December 31, 2014
- All loans paid in full during the period of January 1, 2014 through December 31, 2014
- All loans with participant-initiated payments during the period of January 1, 2014 through December 31, 2014
- Participants for whom a taxable distribution was declared during the period of January 1, 2014 through December 31, 2014
- All loan re-amortizations during the period of January 1, 2014 through December 31, 2014
- Participants who entered nonpay status while having an outstanding loan during the period of January 1, 2014 through December 31, 2014
- Participants who entered nonpay status while having an outstanding loan during the period of January 1, 2013 through December 31, 2013
- Quarterly Default Sweeps run during the period December 31, 2013 through December 30, 2014
- Loan fees received during the period of January 1, 2014 through December 31, 2014
- Daily Federal Reserve Board reconciliations for the period January 1, 2014 through December 31, 2014
- Daily SF-1166 to Omni Pay to Omni Plus reconciliations for the period January 1, 2014 through December 31, 2014
- Daily SF-215 lockbox reconciliations for the period January 1, 2014 through December 31, 2014
- Daily outstanding loans reconciliations for the period January 1, 2014 through December 31, 2014