



Employee Benefits Security Administration

Performance Audit of the Thrift Savings Plan Annuity Process

February 3, 2017

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
EXECUTIVE SUMMARY	i
I. BACKGROUND OF THE TSP AND ANNUITY PROCESS	
A. The Thrift Savings Plan	I.1
B. The Metropolitan Life Insurance Company	I.1
C. TSP Annuity Requirements	I.3
D. TSP Annuity Options	I.4
E. TSP Annuity Process	I.6
F. TSP Annuity Statistics	I.8
II. OBJECTIVE, SCOPE, AND METHODOLOGY	
A. Objectives	II.1
B. Scope and Methodology	II.1
III. FINDINGS AND RECOMMENDATIONS	
A. Introduction	III.1
B. Findings and Recommendations from Prior Reports	III.2
C. 2015 Findings and Recommendations	III.3
D. Summary of Open Recommendations	III.6
<u>Appendices</u>	
A. Agency's Response	A.1
B. Key Documentation and Reports Reviewed	B.1

EXECUTIVE SUMMARY

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

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

As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of the Thrift Savings Plan (TSP) annuity process. We performed our fieldwork from March 1 through July 19, 2016, primarily at Metropolitan Life Insurance Company (Metropolitan Life) in Alpharetta, Georgia. Our scope period for testing was January 1, 2015, through December 31, 2015.

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

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

- Determine whether the Federal Retirement Thrift Investment Board's Staff (Agency) implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under 5 USC 8434(a)(1) and 5 CFR 1650.14(d); (3) perform due diligence reviews of the annuity vendor's financial condition and evaluated the financial stability of the annuity vendor at time of contract award and in subsequent years as prescribed under 5 USC 8434(d)(4).

- Test compliance of the TSP annuity process in accordance with 5 USC Sections 8434(a)(1), 8434(d)(2), 8434(d)(3), and 8434(d)(4) (hereinafter referred to as FERSA) and 5 CFR 1650.14(d) (hereinafter referred to as Agency Regulations);
- Determine the status of the prior EBSA TSP open recommendations reported in *Performance Audit of the Thrift Savings Plan Annuity Process, December 31, 2014*.

The scope of this engagement excluded testing of TSP withdrawal-related procedures performed prior to the purchase of an annuity.

We present three new recommendations, two addressing fundamental controls and one addressing other controls related to the TSP annuity process. Fundamental control recommendations address significant procedures or processes that have been designed and operated 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 annuity process. The Agency should review and consider these recommendations for timely implementation. Section III.C presents the details that support the current year findings and recommendations.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2015 through December 31, 2015, the Agency implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under 5 USC 8434(a)(1) and 5 CFR 1650.14(d); and (3) perform due diligence reviews of the annuity vendor's financial condition and evaluate the financial stability of the annuity vendor at time of contract award and in subsequent years. As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA or Agency Regulations in the TSP annuity process. However, as indicated above, we noted internal control deficiencies in certain areas that could adversely affect the TSP annuity process.

We also reviewed one prior EBSA recommendation related to the TSP annuity process to determine its current status. This prior year recommendation was reported in *Performance Audit of the Thrift Savings Plan Annuity Process, December 31, 2015*. Section III.B documents the status of this prior recommendation. In summary, the recommendation has been implemented and closed.

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

This performance audit did not constitute an audit of the TSP's financial statements in accordance with *Government Auditing Standards*. KPMG was not engaged to, and did not render an opinion on the Agency's internal controls over financial reporting or over financial management systems. 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

February 3, 2017

I. BACKGROUND OF THE TSP AND ANNUITY OPERATIONS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System (FERS) and provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions on April 1, 1987, and as of December 31, 2015, had approximately \$458 billion in assets and more than 4.8 million participants.¹

The FERSA also 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. The Metropolitan Life Insurance Company

The Board's Executive Director is required under FERSA to purchase annuity contracts on behalf of separated participants who have elected this withdrawal option. Metropolitan Life Insurance Company (Metropolitan Life) has been contracted by the Agency as the annuity vendor for the TSP. Metropolitan Life is responsible for establishing the account record and for making monthly annuity payments to the annuitant or beneficiary, as applicable. Metropolitan Life is required to provide each annuitant with annual tax information regarding his or her annuity.

The Master Annuity Contract dated January 17, 2006, including applicable modifications, and the most recent Master Annuity Contract dated May 12, 2014, between the Agency and Metropolitan Life, specifies the following monthly and annual reports for Metropolitan Life to submit to the Agency:

Summary Report - monthly report of the number of annuity purchases by annuity option and a

¹ Source: Minutes of the January 25, 2016 Board Meeting, posted on the Board's website at <https://www.frtib.gov/MeetingMinutes/2016/2016Jan.pdf>.

breakdown of the amount of single premiums by annuity option.

Detailed Annuity Report - monthly report listing annuity purchases, including annuitant's (1) name, (2) social security number, (3) address, (4) gender, (5) joint annuitant's (if applicable) age at date of purchase, (6) date of purchase, (7) amount of single premium, (8) annuity option selected, (9) initial monthly benefit, and (10) initial payment date.

Change Listing Report - monthly detail listing of changes made to annuities or in the status of annuitants including (1) death of annuitant or joint annuitant, (2) CPI adjustments, (3) corrections of annuities incorrectly issued or reported, and (4) adjustments after the fact to annuity purchases (as in the case of Agency error in the purchase of the annuity).

Annual Report - summary of annuity activity during the year and a detailed listing of current information regarding all annuities purchased under the TSP Master Annuity Contract. Specifically, this report includes: (1) types of annuities purchased, (2) ages of annuitants at purchase dates, (3) ages of joint annuitants relative to their spouses, (4) data on ages upon death, and (5) age of surviving annuitants.

The Agency reviews these reports to ensure that annuities are initiated and processed in accordance with the Master Annuity Contract and are in compliance with applicable regulations.

Operations at Metropolitan Life are audited by:

- New York State Department of Financial Services (DFS);
- Deloitte & Touche LLP (Metropolitan Life's independent auditors); and
- Metropolitan Life's Internal Audit Department (Internal Audit).

The DFS examines all insurance companies registered in New York State. The DFS's examination focuses on market conduct, financial operations, contract compliance, and reserve analysis. DFS's last Metropolitan Life report, financial examination of the Metropolitan Life Insurance Company, was issued on June 5, 2015 for the period January 1, 2009 through December 31, 2013. Although this report did not impact the current scope period, we did review it as part of our planning procedures.

As part of our performance audit, we reviewed Deloitte & Touche LLP's audit report on Metropolitan Life's statutory financial statements and related notes for the fiscal years ended

December 31, 2015 and 2014. We noted an unmodified opinion was issued on those financial statements, which were presented in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures. Additionally, we reviewed the Type II Statement on Standards for Attestation Engagements No. 16 (SSAE 16) reports, issued by (Deloitte & Touche, LLP), titled *Report on MetLife, Inc.'s Global Technology and Operations: Description of its System and on the Sustainability of the Design and Operating Effectiveness of its Controls*, and *Report on MetLife, Inc.'s Income Annuities Operations: Description of its System and on the Sustainability of the Design and Operating Effectiveness of its Controls*, for the period October 1, 2014 through September 30, 2015, and the related bridge letters for the period October 1, 2015 through December 31, 2015. No matters were noted during our review of these documents that would impact our conclusions on the performance audit objectives listed in Section II.A of this report.

Metropolitan Life's Internal Audit function performs annual Sarbanes-Oxley walkthrough procedures, evaluates the status of internal controls, and tests a representative sample of transactions. Based on an annual risk analysis and other criteria, Internal Audit tests significant operational areas and accounting systems on a three to four year cycle, while less risky operational areas will be audited every five to six years. Metropolitan Life indicated that the benefit payment program is audited approximately every three to four years.

The last internal audit covering the TSP annuity payment contracts occurred in 2011 and did not identify any findings specific to TSP annuities. Internal Audit initially planned for to conduct testing over TSP annuities in December 2015; however, the planned testing was delayed and is now planned to begin in April 2017.

C. TSP Annuity Requirements²

Eligibility

All separated participants can elect to purchase an annuity if their TSP participant account balance is at least \$3,500 when the annuity is purchased. If a mixed withdrawal (e.g., annuity and single payment) is elected, the portion elected for the purchase of the annuity must equal at least \$3,500 of the participant's vested account balance.

² Source: *Withdrawing Your TSP Account After Leaving Federal Service*, March 2014.

Spouses' Rights

FERS and Uniformed Service participants. For married FERS and uniformed service participants (even if the participant is separated from the spouse), the spouse is entitled to a survivor annuity unless he or she waives that right. Section III of Form TSP-70, *Request for Full Withdrawal*, must be signed and notarized if the participant elects an annuity other than a joint life annuity with a 50 percent survivor (spouse) benefit, level payments, and no other features. If a married participant is unable to locate his or her spouse or if exceptional circumstances make it impossible or inappropriate for the spouse to sign a waiver, the participant must request an exception from this requirement of the spouse benefit. To request an exception, the participant must complete Form TSP-16 (or Form TSP-U-16), *Exception to Spousal Requirements*, and provide supporting documentation as described on that form.

Civil Service Retirement System (CSRS) participants. For married CSRS participants (even if the participant is separated from the spouse), the TSP must send a notice to the participant's spouse before the withdrawal is processed. If a married CSRS participant cannot provide the spouse's address, the participant may receive an exception based on whereabouts unknown (not exceptional circumstances). To request an exception, the participant must complete Form TSP-16 and provide supporting documentation as described on that form.

All participants. If the Agency has received a valid court order that awards a portion of the participant's TSP account to a former spouse or separated spouse or a valid order that requires payment for enforcement of child support or alimony obligations, the annuity request will not be accepted until the court order has been settled.

D. TSP Annuity Options²

Several types of life annuities are available to TSP participants. Within the different types of life annuities, TSP participants can select among 18 different options.

The types of TSP life annuities include:

- Single life annuities, with level payments, or increasing payments,
- Joint life annuities with spouse, with level payments, or increasing payments, and
- Joint life annuities with other survivor, with level payments.

Exhibit I-1 summarizes the 18 annuity options available to TSP participants. These annuity options include (1) 50 percent survivor annuity, (2) 100 percent survivor annuity, (3) cash refund, and (4) 10-year certain annuity.

Exhibit I-1

Summary of Annuity Options

Single Life	
1. Level Payments a) with no additional features or b) with cash refund feature or c) with 10-year certain feature	2. Increasing Payments a) with no additional features or b) with cash refund feature or c) with 10-year certain feature
Joint Life with Spouse	
3. Level Payments a) 100% survivor or b) 50% survivor or c) 100% survivor with cash refund or d) 50% survivor with cash refund	4. Increasing Payments a) 100% survivor or b) 50% survivor or c) 100% survivor with cash refund or d) 50% survivor with cash refund
Joint Life with Other Survivor	
5. Level Payments a) 100% survivor or b) 50% survivor or c) 100% survivor with cash refund or d) 50% survivor with cash refund	

The monthly annuity payment is affected by the following factors:

- The annuity option and feature chosen;

- The participant's age when the annuity is purchased (and the age of the spouse or other joint annuitant, if a joint life annuity is purchased);
- The amount used to purchase the annuity; and
- The interest rate index when the annuity is purchased.

The annuitant receives the first monthly payment approximately 30 days after purchase of the annuity. After purchasing an annuity, the annuitant is no longer a TSP participant. The annuitant's further communications concerning his or her annuity will be with the annuity vendor, Metropolitan Life.

E. TSP Annuity Process

Federal Agencies and Uniformed Services

When a TSP participant leaves the government or uniformed services, the participant's agency or service must inform the TSP that the participant has separated by submitting a TSP separation code and the date of the separation. The participant's annuity request cannot be processed until the TSP has received the separation information.

TSP and the Agency

To request an annuity, a participant must submit a Form TSP-70 to the TSP through its service providers' processing center in Birmingham, AL. Annuity plan participants may download the form online but must complete and mail all withdrawal requests, including annuities, manually. At the service provider, all forms receive a barcode to indicate the type of withdrawal selected on the TSP-70 and then are scanned into the document imaging system. 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, the document imaging system performs edit checks on the participant's name and account ID to verify they match a valid account in the TSP system and ensure that a duplicate form is not already in process. Additionally, for annuity withdrawals, the service provider verifies the joint annuitant's date of birth, if applicable. Once the form has been indexed and passed all data edit checks, forms are transmitted to the TSP system via the nightly unified processing cycle. During the nightly unified processing cycle, the TSP system performs additional edits checks to verify the requirements for annuity withdrawals have been met. Once the form passes the edit checks within the TSP system, a confirmation letter is sent to the participant. At the end of every business day, all annuitant data processed in the TSP system that day is batch

processed and transmitted via system interface to Metropolitan Life's annuity system.

The Agency is responsible for calculating the monthly annuity interest rate index. The interest rate is based on the 8-week average of the 10-year interest rate swaps (source at <https://www.federalreserve.gov/releases/h15/>) preceding the purchase of the annuity in accordance with the Master Annuity Contract signed between the Agency and Metropolitan Life on January 17, 2006, including applicable modifications, and the most recent Master Annuity Contract dated May 12, 2014. The interest rate is initially calculated by the Agency and then confirmed by Metropolitan Life, in writing.

On a monthly basis, the Agency reconciles total disbursements and number of annuities purchased to the Summary Report furnished by Metropolitan Life. The Agency also reviews reports submitted by Metropolitan Life, described in Section I.B, to ensure that annuity processing complies with TSP regulations and guidelines outlined in the Master Annuity Contract.

Annuity Vendor

Upon receipt of annuitant information from the TSP, Metropolitan Life's Actuarial Division monitors and inputs certain variable information (e.g., monthly interest rate) into the annuity system, which then calculates the monthly annuity payment for annuities purchased during that month.

Once Metropolitan Life staff receives a new annuitant Transmission Report from the annuity system, the staff sends the TSP participant a "Welcome Letter", an annuity certificate, Banking Agreement for Direct Deposit of Annuity Payments, and the tax form W4-P for Federal tax withholdings. The Welcome Letter indicates the amount used to purchase the annuity (i.e., the amount received from the TSP), the calculated monthly annuity payment, and the approximate date on which the annuitant will receive the first annuity payment. The Welcome Letter also includes a toll-free telephone number that the participant can call to request changes to his/her address and federal and state tax withholding allowances, and for answers to other questions regarding his or her annuity. The initial monthly annuity payment is sent to the individual approximately 30 days after the purchase of the annuity.

On an ongoing basis, Metropolitan Life is responsible for paying timely monthly annuities, processing administrative changes such as addresses or beneficiaries, and communicating

required tax information. Metropolitan Life also adjusts monthly annuities on an annual basis for increases in the Consumer Price Index (CPI; applicable to annuities with the increasing payments option) and for the death of joint annuitants.

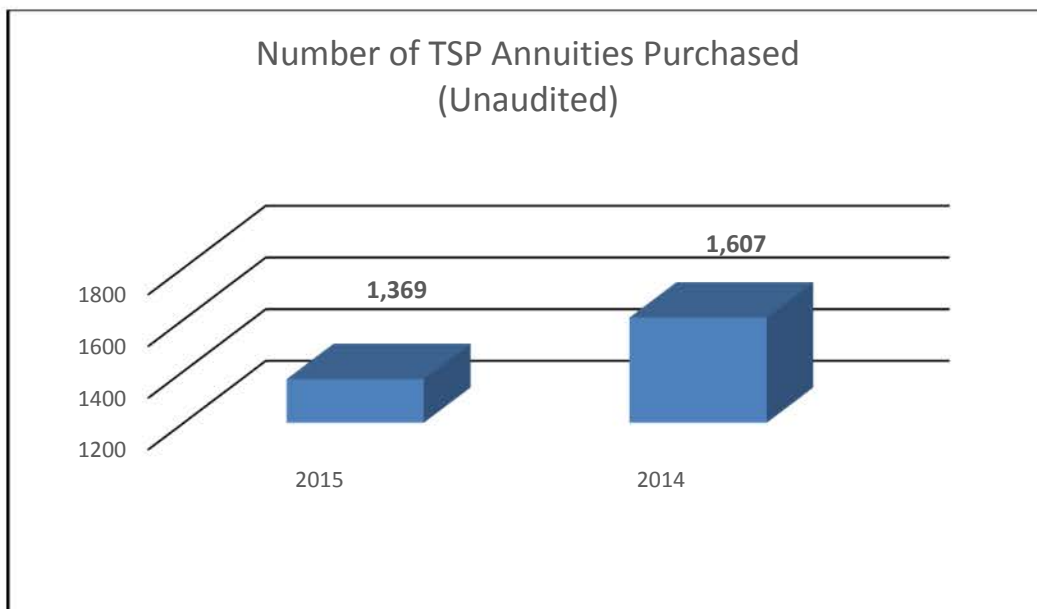
The CPI factor, calculated annually by Metropolitan Life, is confirmed by the Agency and is applicable to all increasing annuities on their anniversary (or “commencement”) date in the upcoming calendar year. The annuity adjustment is calculated as the lesser of 3.00 percent or the CPI factor. An annuity adjustment of 1.70 percent was made in 2015.

As described in Section I.B, Metropolitan Life prepares reports, on a monthly and annual basis, that summarize annuity purchases during the period. Metropolitan Life sends these reports to the Agency, as required by the Master Annuity Contract.

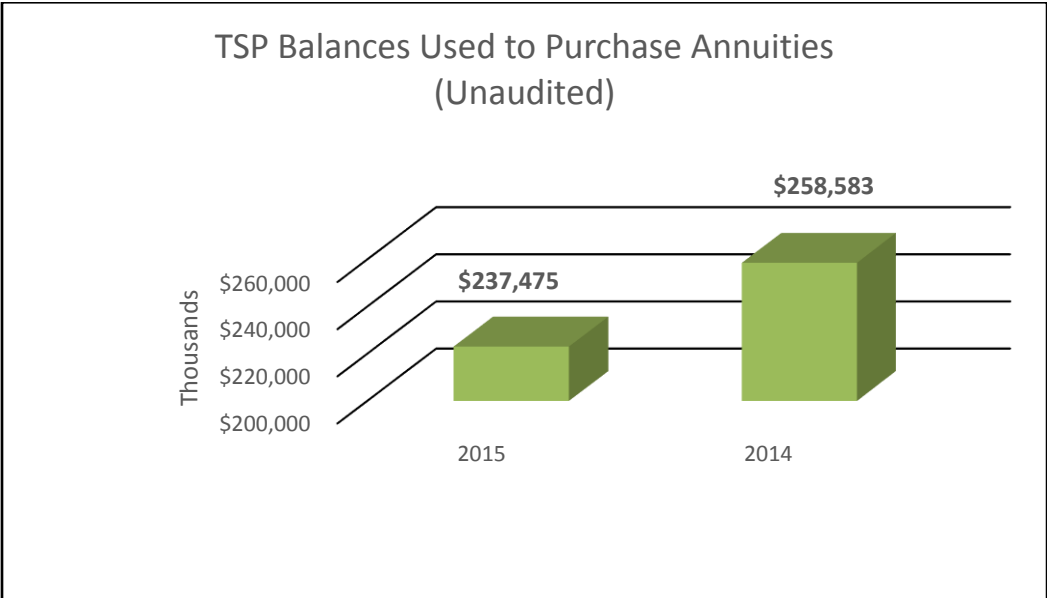
F. TSP Annuity Statistics³

Exhibits I-2 and I-3, respectively, illustrate the total number of annuities and the original dollar amounts that were purchased for TSP participants in calendar years 2015 and 2014.

Exhibit I-2



³ Source: Metropolitan Life’s “Summary Report” for TSP participant annuities; January 2015 through December 2015



II. OBJECTIVE, SCOPE AND METHODOLOGY

A. Objectives

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) annuity process.

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

- Determine whether the Board's Staff (Agency) implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under United States Code (USC) Title 5, Section 8434(a)(1) and Code of Federal Regulations (CFR) Title 5, Part 1650.14(d); (3) perform due diligence reviews of the annuity vendor's financial condition and evaluated the financial stability of the annuity vendor at time of contract award and in subsequent years as prescribed under 5 USC 8434(d)(4).
- Test compliance of the TSP annuity process in accordance with 5 USC Sections 8434(d)(2), 8434(d)(3), and 5 CFR 1650.14(d);
- Determine the status of the prior EBSA TSP open recommendations reported in *Performance Audit of the Thrift Savings Plan Annuity Process, December 31, 2014*.

B. Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the American Institute of Certified Public Accountants' *Standards for Consulting Services*, using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was January 1, 2015 through December 31, 2015. We performed the audit in four phases: (1) planning, (2) arranging for the engagement with the Agency, (3) testing and interviewing, and (4) report writing.

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

Metropolitan Life, 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 walkthroughs, and designed and performed tests of controls and compliance. We conducted these test procedures primarily at the Metropolitan Life's headquarters in Alpharetta, GA. In Appendix B, we identify the key documentation provided by Agency personnel that we reviewed during our performance audit.

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

- New annuities, to determine that annuity payments were processed in a timely manner, all necessary documentation was present and valid before an annuity was made, the annuity payment made was properly calculated per the annuity option selected, and the annuity payments were disbursed to the proper payee.
- Changed annuity payments, to determine that annuity changes were processed in a timely manner, all necessary documentation was present and valid before an annuity was changed, and the annuity change made was properly calculated.
- Deceased annuitants, to determine that deceased annuity transactions were processed in a timely manner, payments were timely and appropriately issued to the beneficiaries, and Metropolitan Life was properly reimbursed for overpayments to the annuitant, if applicable.

We excluded from this audit the consideration of the TSP withdrawal-related procedures performed prior to the purchase of an annuity. These procedures are addressed separately within the overall EBSA *Thrift Savings Plan Fiduciary Oversight Program*.

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

III. FINDINGS AND RECOMMENDATIONS

A. Introduction

We performed procedures related to the Thrift Savings Plan (TSP) annuity operations while conducting a performance audit primarily at Metropolitan Life Insurance Company (Metropolitan Life). Our scope period for testing was January 1, 2015 through December 31, 2015. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel, reviewing key reports and documentation (Appendix B), and observing selected procedures.

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We determined for the period January 1, 2014 through December 31, 2014, the Federal Retirement Thrift Investment Board's Staff (Agency) implemented certain procedures to monitor Metropolitan Life's financial position and stability as prescribed in United States Code (USC) Title 5, Section 8423(d)(4). In addition, we determined that for the period January 1, 2015 through December 31, 2015, Metropolitan Life implemented certain procedures to (1) process annuity payments and payments to beneficiaries accurately and timely and (2) provide the annuity options prescribed under the 5 USC 8434(a)(1) and Code of Federal Regulations (CFR) Title 5, Part 1650.14(d). As a result of our compliance testing, we did not identify any instances of noncompliance with 5 USC Sections 8434(a)(1), 8434(d)(2), 8434(d)(3), and 8434(d)(4) and 5 CFR 1650.14(d) in the TSP annuity operations. However, we noted internal control deficiencies related to the calculation of new annuitant initial payments and the reporting of tax status for annuity purchases.

We present three new recommendations, presented in Section III.C; two addressing fundamental controls and one addressing other controls related to the TSP annuity process. Fundamental control recommendations address significant procedures or processes that have been designed and operate to reduce the risk that material intentional or unintentional processing errors could occur without timely detection or that assets are inadequately safeguarded against loss. Other control recommendations address procedures or processes that are less significant than fundamental controls. These recommendations are intended to strengthen the TSP annuity process. The Agency should review and consider these recommendations for timely implementation. The Agency's responses to these recommendations are included as an appendix within this report (Appendix A).

We also reviewed one prior U.S. Department of Labor Employee Benefits Security

Administration (EBSA) recommendation related to the TSP annuity operations process to determine its current status. The prior year recommendation was reported in the *Performance Audit of the Thrift Savings Plan Annuity Process, December 7, 2015*. Section III.B documents the status of the prior recommendation. In summary, the recommendation has been implemented and closed.

Section III.C presents the new 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.

2015 Annuity Process Recommendation No. 1

Title: Supervisory Review of New Annuitant Payment Calculations

Original Recommendation: The Agency should formally document the process for reviewing annuity payment calculations, including a threshold for which identified differences should be investigated.

Reason for Recommendation During our 2014 procedures to recalculate the monthly benefit payment for a sample of 58 new annuitants, we identified 15 instances in which the related annuity payment amount did not agree to the amount we recalculated. Although the differences were not significant (i.e., the differences were all \$1.09 or less), we noted they all occurred subsequent to an income annuity factor adjustment that was implemented in the TSP system in June 2014 as per the annuity contract dated May 12, 2014. Further, we did not identify any differences in our sample for items that occurred prior to the income annuity factor adjustment.

The Agency informed us that they perform periodic reviews of annuity payments, but they did not investigate these differences because they were not significant. However, the Agency did not have formal policies and procedures documented related to the review performed over annuity

payment calculations, including the threshold for identifying significant differences that would be investigated.

Status:

Implemented.

During our 2015 testing, we noted that the Agency drafted procedures over the review process of new annuitant payments including thresholds in which identified differences would be investigated.

Disposition:

Recommendation Closed.

C. 2016 Findings and Recommendations

While conducting our performance audit over the TSP annuity operations process, we identified three new findings and developed related recommendations. EBSA requests appropriate and timely action for each recommendation.

FUNDAMENTAL CONTROL RECOMMENDATIONS

Inaccurate Reporting of Taxable and Tax Exempt Amounts for Annuity Purchases

During our current year fieldwork, the Agency informed us of 34 annuity contracts, purchased between 2006 and 2016, in which combat pay was incorrectly classified as taxable in the annuity purchase submitted to Metropolitan Life.

As of the end of our fieldwork, the Agency was still working on a program fix to the TSP system in order to correct the year over year impact as of calendar year 2015 (tax year 2016) for 32 of the annuitants. Implementation of additional fixes for the remaining two annuitants is expected to be completed by the end of calendar year 2016 (tax year 2017).

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 10.03 states, "Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system."

- 1. The Agency should implement appropriate changes to the TSP system to ensure the system programming properly classifies the taxable and tax exempt amounts on future**

annuity purchases as well as properly correct any accounts identified to date in which the annuity purchase was not accurately reported to Metropolitan Life.

Inaccurate reporting of annuity purchases results in improper reporting of taxable versus tax exempt annuity benefits.

New Annuitant Payment Calculation Errors

As part of our performance audit procedures, we recalculated the monthly benefit payment for a sample of 58 new annuitants. As a result of our testing, we identified three instances in which the annuity payment amount did not agree to the amount we recalculated. The differences were the result of Metropolitan Life's annuity system using the incorrect date to determine the primary annuitant's age for purposes of calculating monthly annuity payments. In calculating the monthly annuity benefit, the system was incorrectly configured to determine the age of the primary annuitant based on the benefit commencement date instead of the annuity issue date. In addition to the errors noted above, Metropolitan Life and the Agency identified another 830 annuitants that were impacted by this error.

Metropolitan Life informed us that a system change was implemented in February 2016 to properly calculate the primary annuitants' ages based on annuity issue date. In addition, Metropolitan Life paid retroactive benefits to those annuitants whose benefits were underpaid as a result of the error. No retroactive reimbursement actions were taken by Metropolitan Life for those annuitants whose initial benefits were overpaid. However, we were unable to obtain all of the evidence necessary from both the Agency and Metropolitan Life to verify that the corrective actions taken effectively resolved the issues prior to the end of our fieldwork.

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 10.03 states, "Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system."

- 2. The Agency should work with Metropolitan Life to verify that the correction action related to the calculation of new annuitant payments was properly implemented to ensure the annuity system is properly configured to determine the age of the primary annuitant and that the affected annuitants were properly reimbursed, as applicable.**

Without sufficient controls in place to ensure annuitants' age is properly determined, there is an increased risk of inaccurate calculations for new annuity payments.

OTHER CONTROL RECOMMENDATION

Weaknesses in Supervisory Review of New Annuitant Payment Calculations

We identified weaknesses in the Agency's review of new annuitant payment calculations during our current year performance audit procedures. For example, we noted that the procedures were not sufficiently written to address the number of payments to review or how the resolution of differences identified should be documented.

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 10.03 states, "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

- 3. The Agency should enhance the documentation over the monthly processes for reviewing annuity payment calculations, which should include the number of sampled payments to review each month and how the resolution of differences identified should be documented, at a minimum.**

Without enhancing and finalizing the documented procedures for the review over new annuitant payment calculations, the Agency may not be able to ensure the control is consistently performed and that significant differences are resolved, which would increase the accuracy of annuity payments.

D. Summary of open recommendations

2016 RECOMMENDATIONS:

FUNDAMENTAL CONTROL RECOMMENDATION

1. The Agency should implement appropriate changes to the TSP system to ensure the system programming properly classifies the taxable and tax exempt amounts on future annuity purchases as well as properly correct any accounts identified to date in which the annuity purchase was not accurately reported to Metropolitan Life.
2. The Agency should work with Metropolitan Life to verify that the correction action related to the calculation of new annuitant payments was properly implemented to ensure the annuity system is properly configured to determine the age of the primary annuitant and that the affected annuitants were properly reimbursed, as applicable.

OTHER CONTROL RECOMMENDATION

3. The Agency should enhance the documentation over the monthly processes for reviewing annuity payment calculations, which should include the number of sampled payments to review each month and how the resolution of differences identified should be documented, at a minimum.

AGENCY RESPONSE



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

February 3, 2017

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

Dear Michael:

This is in response to KPMG's email of January 13, 2017, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Annuity Process January 2017. My comments with respect to this report are enclosed.

We are pleased to note during the FY 2016 audit that the auditors did not identify any instances where TSP annuity operations did not comply with FERSA or applicable Board regulations for the period of January 1, 2015 through December 1, 2015.

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

AGENCY RESPONSE

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

2016 Recommendations to Address Fundamental Controls**2016-1 Inaccurate Reporting of Taxable and Tax Exempt Amounts for Annuity Purchases**

The Agency should implement appropriate changes to the TSP system to ensure the system programming properly classifies the taxable and tax exempt amounts on future annuity purchases as well as properly correct any accounts identified to date in which the annuity purchase was not accurately reported to Metropolitan Life.

Agency Response:

The Agency concurs with this recommendation and considers it to be closed. In September 2016 the Agency updated the system generated daily annuity purchase data file to correctly report taxable and tax exempt amounts to MetLife for new annuity purchases. The tax exempt corrections for previously purchased annuities were completed for 32 of the 34 annuitants in tax reporting year 2015. The correction period for the remaining two annuitants will be completed in tax reporting years 2016 for one and 2017 for the other annuitant. Going forward, MetLife will track and report the correct taxable and non-taxable amounts for all annuitants.

2016-2 New Annuitant Payment Calculation Errors

The Agency should work with Metropolitan Life to verify that the correction action related to the calculation of new annuitant payments was properly implemented to ensure the annuity system is properly configured to determine the age of the primary annuitant and that the affected annuitants were properly reimbursed, as applicable.

Agency Response:

The Agency concurs with this recommendation and considers it to be closed. In 2015 the Agency identified the discrepancy and partnered with MetLife throughout the correction process which was completed in 2016. The Agency has implemented oversight procedures for supervisory review of new annuitant payment calculations to provide ongoing oversight and an independent verification to ensure new annuitant payments are calculated correctly by MetLife.

2016 Recommendations to Address Other Controls**2016-3 Weaknesses in Supervisory Review of New Annuitant Payment Calculations**

The Agency should enhance the documentation over the monthly processes for reviewing annuity payment calculations, which should include the number sampled payments to review each month and how the resolution of differences identified should be documented, at a minimum.

Agency Response:

The Agency concurs with this recommendation and considers it to be closed. The updates to the Withdrawal Procedures, Annuity Purchase Review section to include the number of payments reviewed each month and how payment differences will be documented and addressed were completed in December 2016.

KEY DOCUMENTATION AND REPORTS REVIEWED

Documents

- Contract (including subsequent contract modifications) between the Federal Retirement Thrift Investment Board and Metropolitan Life dated January 17, 2006; May 14, 2014.
- *Withdrawing Your TSP Account After Leaving Federal Service*, March 2014
- Federal Retirement Thrift Investment Board's Staff's (Agency) Reconciliation of Annuity Disbursements and Purchases, March 2015, July 2015, and September 2015
- Letter to Metropolitan Life Insurance Company, regarding the Federal Thrift Plan Cost of Living Increase Worksheet for calendar year 2015
- Monthly Annuity Interest Rate Index Calculation prepared by the Agency and Metropolitan Life for March 2015, September 2015, and December 2015
- Transmission and Load Reports for the period of January 1, 2015 to December 31, 2015

Reports

- "Consolidated Financial Statements for the Years Ended December 31, 2015 and Independent Auditor's Reports of the Metropolitan Life Insurance Company", issued by the independent accounting firm of Deloitte & Touche LLP
- Metropolitan Life, U.S. Business, Report on Controls Placed in Operation and Tests of Operating Effectiveness Relating to Global Technology and Operations and Income Annuities for the period January 1, 2015 through September 30, 2015.
- Metropolitan Life, U.S. Business, Bridge Letters for Type II SSAE 16 Reports for the period October 1, 2015 through December 31, 2015.
- Metropolitan Life's "Summary Report" for TSP participant annuities; January 2015 through December 2015
- Metropolitan Life's "Summary Report" for TSP participant annuities; January 2015 through December 2015
- Metropolitan Life's "Detailed Annuity Report" for TSP participants; January 2015 through December 2015
- Metropolitan Life's "Change Listing Report" for TSP participants; January 2015 through December 2015
- Metropolitan Life's "Death Listing Report" for TSP participants; January 2015 through December 2015

KEY DOCUMENTATION AND REPORTS REVIEWED

- Federal Reserve Bank's monthly annuity interest rate based on the 8-week average on 10-year interest rate swaps for calendar year 2015
- Federal Thrift Monthly Detail Report Query – New Annuitant Listing; January 2015 through December 2015
- Federal Thrift Monthly Detail Report Query – Change Listing; January 2015 through December 2015
- Federal Thrift Monthly Detail Report Query – Death Listing; January 2015 through December 2015