



Employee Benefits Security Administration

Performance Audit of the Thrift Savings Plan Government Securities Investment Fund Investment Operations

April 11, 2022

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EXECUTIVE SUMMARY

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

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

Michael Auerbach
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) Government Securities Investment Fund (G Fund) investment operations. Our fieldwork was performed remotely from January 19, 2022 through February 4, 2022. Our scope period for testing was January 1, 2021 through December 31, 2021.

We conducted this performance audit in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the American Institute of Certified Public Accountants' (AICPA) *Standards for Consulting Services*. *Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate audit evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Criteria used for this engagement are defined in 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 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; and
- Test compliance of the TSP G Fund investment operations with the applicable provisions of the Federal Employees' Retirement System Act of 1986, specifically United States Code Title 5, Sections 8438(e)(2)(A), 8438(g)(4-5), and 8438(h)(1-2) (hereinafter referred to as FERSA).

We noted no prior findings or recommendations, and the current engagement produced no new findings or 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, 2021 through December 31, 2021, 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, 2021 through December 31, 2021, 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 financial statements or an attestation engagement as defined by *Government Auditing Standards* and the AICPA standards for attestation engagements. We were 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. We caution 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 Federal Retirement Thrift Investment Board, Agency management, and U.S. Department of the Treasury management. The report is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

April 11, 2022

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 (FERS) and provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. For eligible FERS participants and uniformed service members under the Blended Retirement System, the TSP also provides agency automatic one percent and matching contributions. The TSP began accepting contributions on April 1, 1987, and as of December 31, 2021, had approximately \$811.7 billion in assets and approximately 6.5 million participants.¹

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

FERSA also requires the Board to establish the following investment funds for the investment of TSP contributions: Government Securities Investment Fund (G Fund), Fixed Income Index Investment Fund (F Fund), Common Stock Index Investment Fund (C Fund), Small Capitalization Stock Index Investment Fund (S Fund), and the International Stock Index Investment Fund (I Fund). Participants may also choose to invest their money in the Lifecycle Funds (L Funds), which are invested among the G, F, C, S, and I Funds using professionally determined investment mixes (allocations) that are tailored to ten different time horizons (i.e., when the participants will need their money after they leave Federal service). TSP participants elect the amount and allocation of their TSP contributions among available investment funds. The Agency is responsible for investing TSP funds according to participant elections.

F, C, S, and I Fund contributions are invested in separate accounts that hold only TSP assets. The F, C, S, and I Funds' accounts are managed by a third-party investment manager and are invested

¹ Source: Minutes of the January 24, 2022 Federal Retirement Thrift Investment Board Meeting, posted on www.frtib.gov.

to replicate the risk and return characteristics of the applicable benchmark indices, as determined by the Board members. Additional details regarding these funds are described in section D.2 of the *Thrift Savings Plan Fiduciary Oversight Program*.

B. TSP G Fund Investment Management Operations

1. 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 if such issuances do not cause the public debt of the United States to exceed the statutory 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 not callable within four (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 [REDACTED]. 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 four (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.

Treasury's Bureau of Fiscal Service calculates interest on maturing G Fund investments daily by applying the interest rate provided by Treasury's Office of Debt Management. Treasury then reports this information to the Agency, through FedInvest², for use in the daily valuation of the G Fund.

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

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.

2. 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.

Daily, the Agency calculates the amount of funds to be invested in the G Fund and submits an investment purchase request to Treasury using FedInvest. Once the request is submitted, FedInvest produces an electronic confirmation with the details of the investment purchase.

During a debt issuance suspension period, the Executive Director of the Agency is required to notify the Secretary of the Treasury daily of the amounts that would have been invested or redeemed had the debt issuance suspension period not occurred.

C. TSP Fund Statistics

The table below (*Exhibit I-1*) represents the rate of return on each of the TSP funds for the twelve months ended December 31 for each of the last three (3) years³.

Exhibit I-1

TSP Fund	12 Months Ended December 31, 2021 (unaudited)	12 Months Ended December 31, 2020 (unaudited)	12 Months Ended December 31, 2019 (unaudited)
G Fund	1.38%	0.97%	2.24%
F Fund	(1.46%)	7.50%	8.68%
C Fund	28.68%	18.31%	31.45%
S Fund	12.45%	31.85%	27.97%
I Fund	11.45%	8.17%	22.47%
L Income	5.42%	5.15%	7.60%
L 2025 Fund	9.75%	N/A	N/A
L 2030 Fund	12.37%	11.26%	17.60%
L 2035 Fund	13.43%	N/A	N/A
L 2040 Fund	14.51%	13.16%	20.69%
L 2045 Fund	15.40%	N/A	N/A
L 2050 Fund	16.34%	14.79%	23.33%
L 2055 Fund	19.90%	N/A	N/A
L 2060 Fund	19.90%	N/A	N/A
L 2065 Fund	19.90%	N/A	N/A
N/A - Inception date for L 2025, L 2035, L 2045, L 2055, L 2060, and L 2065 was July 1, 2020. As such, there are no one-year returns listed for those funds for the calendar years ended 2020 and 2019.			

As of December 31, 2021, 26 percent (unaudited) of TSP assets were invested in the G Fund, as illustrated in Exhibit I-2. A summary of TSP fund balances held by the G, F, C, S, I and L Funds on December 31, 2021 and 2020 is also illustrated in Exhibit I-2.

³ Source: “Rates of Returns”, posted on <https://www.tsp.gov/fund-performance/>.

TSP Fund	Fund Balances December 31, 2021 (unaudited)⁴	% of Total	Fund Balances December 31, 2020 (unaudited)⁵	% of Total
G Fund	\$ 210.9 billion	26.0%	\$ 216.0 billion	30.4%
F Fund	24.9 billion	3.1%	29.1 billion	4.1%
C Fund	268.7 billion	33.1%	204.9 billion	28.9%
S Fund	91.2 billion	11.2%	79.2 billion	11.2%
I Fund	30.7 billion	3.8%	27.1 billion	3.8%
L Funds ⁶	185.3 billion	22.8%	153.4 billion	21.6%
Total	\$ 811.7 billion	100%	\$ 709.6 billion	100%

⁴ Source: Minutes of the January 24, 2022 Federal Retirement Thrift Investment Board Meeting, posted on www.frtib.gov.

⁵ Source: Minutes of the January 26, 2021 Federal Retirement Thrift Investment Board Meeting, posted on www.frtib.gov.

⁶ 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. Objective

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; and
- Test compliance of the TSP G Fund investment operations with the applicable provisions of the Federal Employees' Retirement System Act of 1986, specifically United States Code (USC) Title 5, Sections 8438(e)(2)(A), 8438(g)(4-5), and 8438(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 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, 2021 through December 31, 2021. We performed the audit in four phases: (1) planning, (2) arranging for the engagement with the Agency and Treasury, (3) testing and interviewing, and (4) report writing.

During the planning phase, team members developed a collective understanding of the activities and controls associated with the applications, processes, and personnel involved with the TSP G Fund investment 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 and Borrowings Branch's Description of its Investment and Redemption Services and the Suitability of the Design and Operating Effectiveness of its Controls* (SSAE 18 – Type 2 Report), and designed and performed tests of controls and compliance.

Our performance audit procedures included selecting non-statistical samples 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. Procedures performed included testing the following:

- Listing of investment transactions requested and processed, to determine if Treasury accurately calculated interest earned on G Fund investments and accurately reported G Fund investments and earnings to the Agency;
- Treasury's Notes and Bonds Trust Fund Reports⁷, to determine if monthly G Fund interest rates were accurately calculated;
- Debt suspension period notifications, to determine if the Treasury promptly notified the Agency when a debt issuance suspension period begins and ends;
- Interest reimbursement calculations and investment transactions processed the date after the end of the debt issuance suspension period, to determine if Treasury promptly and accurately restored the G Fund upon expiration of the debt issuance suspension period to the state it would have been if the suspension had not occurred; and
- Listing of investment transactions requested and processed during the debt issuance suspension period, to determine if the Agency promptly and accurately reported to Treasury daily G Fund investments that would have been invested or redeemed during the debt issuance suspension period.

⁷ 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.

We conducted these test procedures remotely. In Appendix C, we identify the key documentation provided by Treasury and Agency personnel that we reviewed during our performance audit. 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.

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

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.

III. FINDINGS AND RECOMMENDATIONS

A. Introduction

We performed procedures related to the Thrift Savings Plan Government Securities Investment Fund (G Fund) investment operations while remotely conducting a performance audit related to activities at the U.S. Department of the Treasury (Treasury) and the Federal Retirement Thrift Investment Board's Staff (Agency). Our scope period for testing was January 1, 2021 through December 31, 2021. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel and reviewing key reports and documentation (Appendix C).

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, 2021 through December 31, 2021, 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 the Agency implemented certain procedures to promptly and accurately report to Treasury the daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods for the period January 1, 2021 through December 31, 2021. 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), 8438(g)(4-5), or 8438(h)(1-2) .

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

AGENCY'S RESPONSE



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

April 11, 2022

Mr. Michael Auerbach
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 dated March 21, 2022, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Government Securities Investment Fund Investment Operations dated April 2022.

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,

A handwritten signature in blue ink that reads "Ravindra Deo".

Ravindra Deo
Executive Director



TREASURY'S RESPONSE
DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

APPENDIX B

April 11, 2022

Mr. Michael Auerbach
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. Auerbach:

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).

The report finds:

We conclude that for the period January 1, 2021 through December 31, 2021, 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, 2021 through December 31, 2021, 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.

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

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

Sincerely,

Gregory J. Till Digitally signed by Gregory J. Till
Date: 2022.04.11 09:39:32 -04'00'

Greg Till
Deputy Assistant Secretary
Fiscal Operations and Policy

KEY DOCUMENTATION AND REPORTS REVIEWED

U.S. Department of the Treasury Documents and Reports

Bureau of the Fiscal Service

- Monthly Statement of the Public Debt of the United States, various 2021 dates
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- Daily calculations related to the G Fund during the Debt Issuance Suspension Period dated August 2, 2021 through December 16, 2021
- Communication provided to the Federal Retirement Thrift Investment Board surrounding the beginning and end of the Debt Issuance Suspension Period dated August 2, 2021 through December 16, 2021

Office of Debt Management

- *Notes and Bonds Trust Fund Report*, various 2021 dates
- Quotations on Treasury Notes and Bonds, various 2021 dates
- Average Yield Recalculation Worksheet

Office of the Inspector General

- *Report on the Bureau of the Fiscal Service Federal Investments and Borrowings Branch's Description of its Investment and Redemption Services and the Suitability of the Design and Operating Effectiveness of its Controls* (SSAE 18 – Type 2 Report), for the Period August 1, 2020 to July 31, 2021

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

- FedInvest Confirmation of Investment and Confirmation of Redemption, various 2021 dates
- FedInvest system-generated report of usernames that requested investments and redemptions, various 2021 dates

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

- Communication provided to, and received from, the U.S. Department of the Treasury’s Bureau of the Fiscal Service for a sample of days during the Debt Issuance Suspension Period dated August 2, 2021 through December 16, 2021
- *Next Day Maturities and Earnings by Source* (TIB-A09) Reports, various 2021 dates
- Monthly Board Meeting Minutes for the period January 2021 through January 2022