KPMG

Employee Benefits Security Administration

Performance Audit of the Thrift Savings Plan Withdrawals Process

June 14, 2023

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EXECUTIVE SUMMARY

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

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As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of the Thrift Savings Plan (TSP) withdrawals process. Our fieldwork was performed remotely from February 2, 2023 through April 12, 2023, in coordination with personnel primarily from the Federal Retirement Thrift Investment Board Staff's (Agency) headquarters in Washington, DC. Our scope period for testing was June 1, 2022 through January 31, 2023.

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 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 withdrawal process were to:

- Determine if the Agency and its vendor implemented certain procedures to (1) promptly and accurately process TSP withdrawal transactions for individual participant accounts; (2) process authorized participant withdrawal payments in accordance with applicable regulations; and (3) accurately record withdrawals activity in the TSP accounting records; and

- Test compliance of the TSP withdrawals process in accordance with 5 USC Sections 8424(d), 8433, and 8435 (hereinafter referred to as FERSA) 5 CFR Parts 1650, 1651, and 1653 (hereinafter referred to as Agency Regulations), and Public Laws 114-26 and 115-84.

We present nine new findings and seven new recommendations, related to the TSP withdrawal process, of which six address fundamental controls and three address "other" controls. Fundamental control recommendations address significant[1] 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 withdrawals process. The Agency should review and consider these recommendations for timely implementation. Section III.B 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 June 1, 2022 through January 31, 2023, the Agency and its vendor implemented certain procedures to (1) promptly and accurately process TSP withdrawal transactions for individual participant accounts; (2) process authorized participant withdrawal payments in accordance with applicable regulations; and (3) accurately record withdrawals activity in the TSP accounting records. However, we noted internal control weaknesses in certain areas that could adversely affect the TSP withdrawal process. As a result of compliance testing, we did not identify any instances of noncompliance with FERSA, Agency regulations, or Public Law except for instances of noncompliance with certain elements of 5 CFR 1653 as described in finding 2023-07 in section III of this report.

No prior findings or recommendations were within the scope of this audit.

The Agency's response 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 or an attestation engagement as defined by *Government Auditing Standards* and the AICPA standards

[1] *Government Auditing Standards* section 6.04 defines significance in the context of a performance audit.

for attestation engagements. 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

June 14, 2023

I. BACKGROUND OF THE WITHDRAWALS PROCESS

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 the Blended Retirement System (BRS), 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 the uniformed services, and members of Congress and certain Congressional employees. The TSP began accepting contributions on April 1, 1987, and as of January 31, 2023, had approximately $759 billion in assets and nearly 6.8 million participants[2].

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 Federal Retirement Thrift Investment Board's Staff (Agency) is responsible for administering TSP operations.

B. TSP System[3]

The TSP recordkeeping systems (TSP system) are a collection of applications that value accounts daily, process and record loans and withdrawals, record contributions, and process interfund transfer requests for TSP participants and beneficiaries. The design of the TSP system is based on [redacted] software that requires the Agency to modify certain business processes to provide enhanced functionality.

In June 2018, the Agency announced that it would replace its existing TSP recordkeeper and seek a new defined contribution/deferred compensation service provider to perform TSP recordkeeping and associated managed services. These managed services include the operation and management of the associated resources, processes, and systems required to deliver TSP retirement services[4]. This acquisition was part of the Agency's strategic plan to move closer to its future business model of procuring services instead of owning and operating TSP recordkeeping systems, while also

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[2] Source: Minutes of the Federal Retirement Thrift Investment Board meeting held on February 28, 2023, posted on www.frtib.gov.

[3] Source: Internally-sourced system documentation.

[4] Source: Agency press release, dated June 28, 2018, posted on www.frtib.gov.

delivering improved services and tools to support TSP participants and beneficiaries[5]. In September 2020, the Board approved the 2021 budget, which included additional funding for the recordkeeping services acquisition [6].

In November 2020, the Agency awarded the contract for managed recordkeeping services for the TSP[7]. The prime contractor uses the [redacted] as the primary recordkeeping system for the loans and withdrawals processes. This recordkeeping services acquisition contract also included [redacted] call-center assistance. This contract award and associated system have been formally named as the Converge program. The Agency provided the prime contractor with requirements to facilitate the support of its services, tools, and technologies. The recordkeeping services provided by the prime contractor went live on June 1, 2022.

The new recordkeeping system is distinctly divided across core recordkeeping services (managed by the recordkeeping service provider) and supporting business capabilities (delivered by the TSP managed service provider), such as customer relationship management, contact center operations, [redacted].

C. TSP Withdrawal Requirements

Eligibility to Remain in the TSP

Upon separation from Federal Service, participants with a vested account balance of $200 or more have the option to leave the entire balance in the TSP or to make a withdrawal. If the participant chooses to leave the balance in the TSP, the account will continue to accrue earnings and the separated participant continues to have the ability to change how the money in the account is invested by making interfund transfers. Once separated, contributions to the account are no longer accepted and loans from the account are no longer permitted. However, the separated participant has the ability to transfer funds into the TSP from an Individual Retirement Account (IRA) (i.e., a traditional or Roth IRA) or an eligible employer plan. Once a participant reaches the age of 72 in

[5] Source: Agency fiscal year 2017-2021 Strategic Plan Closeout Report, dated May 2021, posted on www.frtib.gov.

[6] Source: Minutes of the Federal Retirement Thrift Investment Board meeting held on September 14, 2020, posted on www.frtib.gov.

[7] Source: Minutes of the Federal Retirement Thrift Investment Board meeting held on November16, 2020, posted on www.frtib.gov.

calendar year 2022 or 73 in calendar year 2023, there is a required minimum distribution[8] (RMD) if the participant has not made a withdrawal election. RMDs will be discussed further below.

TSP Post-Separation Withdrawals[9]

When participants separate from Federal service, they are eligible to withdraw their vested account balance from the TSP while non-vested amounts are forfeited to the TSP. FERS participants and members of the uniformed services covered by the BRS must work for two to three years (dependent on position held) to vest in the Agency Automatic (1%) contributions and the related earnings; however, they are always vested in their own contributions, agency matching contributions, and the related earnings. If a participant dies before leaving Federal Service, the entire TSP account is vested automatically. The Civil Service Retirement System (CSRS) and uniformed services participants not covered by the BRS are always vested in all the money in their accounts regardless of the source of the contributions and related earnings.

If a participant has separate civilian and uniformed service TSP accounts, the participant can make a post-separation withdrawal only from the account associated with the participant's separation. If both accounts have separation dates, a post-separation withdrawal can be made from each account.

If a participant separates from Federal civilian employment or the uniformed services and then is reemployed by the Federal Government with a break in service of less than 31 full calendar days, the participant is not eligible to withdraw his/her TSP account. If a participant's break in service is 31 or more full calendar days, he/she is eligible to withdraw his/her TSP account. However, the withdrawal of the account must take place while the participant is separated from service.

Post-separation withdrawals can be requested by the participant online via the TSP system, by phone via the TSP call-center, or by paper form via mail.

<u>Automatic Cash-out</u>

If a participant's vested account balance is less than $200 but more than $4.99, the balance is automatically paid directly to the participant in a single payment. The TSP system is configured to identify accounts of participants who have been separated for at least 31 days and have a vested

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[8] Source: Minutes of the Federal Retirement Thrift Investment Board meeting held on January 24, 2023, posted on www.frtib.gov.

[9] Sources: *Use Your Savings: Taking Money from Your Account* and *Use Your Savings: Withdrawals in Retirement*, posted on www.tsp.gov.

balance that is less than $200 but more than $4.99, and initiate payment to the participant. No notification is made prior to the disbursement. The account balance is paid automatically 60 days after notification of the participant's separation is received from the participant's employing agency. The TSP will not withhold any amount for Federal income tax if the total withdrawals from the account throughout the year of the cash-out add up to less than $200. Account balances of $4.99 or less are forfeited to the TSP; however, participants can request a restoration and payment of the forfeited balance.

<u>Partial Withdrawal</u>

Separated participants have the option of taking withdrawals for a portion of their TSP accounts while leaving the remainder in the TSP until a later date. Participants may take multiple post-separation withdrawals, as long as there are at least 30 calendar days between each request. In addition, a prior age-based in-service withdrawal does not prevent separated participants from taking post-separation partial withdrawals. Participants can take partial withdrawals in a single payment, a series of installment payments, or an annuity, as follows:

1. Single Payment – Participants can take a partial withdrawal of their account balance in a single payment. When choosing this option, participants can opt to receive a direct payment or can request a transfer of all or any percentage of the single payment to an IRA or other eligible employer plan. The minimum amount that can be partially withdrawn is $1,000; if the vested account balance is less than $1,000, the participant must submit a request for a total withdrawal. The single payment percentage not transferred to an IRA or other eligible employer plan is subject to the mandatory 20 percent Federal income tax withholding. Any tax deferred RMD amounts are subject to 10 percent tax withholding and cannot be transferred. Participants can choose to increase their amount of tax withheld but are not allowed to decrease or waive it.

2. Installment Payments – Installment payments are available only for partial withdrawals. The participant can choose one of two installment payment options:

    - Option 1: Installment payments computed by the TSP based on Internal Revenue Service (IRS) life expectancy tables where the initial payment is based on the account balance at the time of the first payment and the participant's age. The TSP recalculates the amount of installment payments each year based on the account balance at the end of the preceding year and the participant's age. For 2022, the installment payments are subject to Federal tax withholding that is the equivalent of the participant being married with three dependents and no rollover option allowed and for 2023, the installment payments are subject to Federal tax withholding that is the equivalent of the participant being single with no dependents and no rollover option allowed. The participant has the option to increase, decrease, or waive withholding.

- Option 2: Installment payments based on a specific dollar amount that is paid to the participant until the entire vested balance has been paid. The amount of the installment payment requested must be $25 or more. If the payments are expected to last less than 10 years and are not related to a RMD, the payments are subject to the mandatory 20 percent Federal tax withholding which cannot be decreased or waived. If the payments are expected to last 10 or more years, they are subject to Federal tax withholding that is the equivalent of the participant being married with 3 dependents and no rollover option allowed, for 2022. For 2023, they are subject to Federal tax withholding that is the equivalent of the participant being single with no dependents and no rollover option allowed. Any tax deferred RMD amounts are subject to a 10 percent tax withholding.

Participants can receive installment payments monthly, quarterly, or annually, and can stop or change these payments at any time. Installments continue unless they are stopped by the participant or the total account balance equals zero. When money from the chosen source (traditional or Roth) is depleted, payments will continue from the participant's other sources. Participants are eligible to take partial withdrawals while receiving installment payments.

3. Life Annuity – Participants can take a partial withdrawal of their account balance to purchase a life annuity. To be eligible, the participant's vested balance must be at least $3,500. If participants have both a traditional and Roth balance in their TSP account, the $3,500 minimum requirement applies to each balance separately. The TSP purchases annuities for participants through the contracted annuity provider. The three general types of annuity options are Single Life Annuity, Joint Life with Spouse, and Joint Life with Other than Spouse.

Consistent with all withdrawals, the partial withdrawal is deducted proportionally from each TSP investment fund in which the participant is invested at the time of disbursement. Participants can elect whether the withdrawal is deducted from their Roth balance only, their traditional balance only, or proportionally from both. The participant may also be subject to an early withdrawal penalty tax of 10 percent if the participant is not at least age 59 ½ at the time of withdrawal[10]. The penalty tax is not withheld by the TSP but is paid by the participant, if required; at the time they file their federal tax return. Additionally, partial withdrawals are an eligible rollover distribution in which the participant may request a transfer of all or a portion of the partial payment to an IRA or other eligible employer plan (subject to IRS rules) unless the participant has RMD amounts ineligible for rollover or installment payments lasting 10 years or more. Amounts transferred to an IRA or other eligible employer plan retain their tax-deferred status.

For partial withdrawals, the TSP has spousal consent and notification requirements for married participants. For married FERS or uniformed services participants, spousal consent is required regardless of the account balance or the amount of withdrawal and the participant's spouse must sign the related spousal consent form. For married CSRS participants, the TSP must notify the spouse of the withdrawal election, regardless of the account balance or the amount of withdrawal. For FERS or uniformed services participants, two exceptions can be made to the spousal consent rule: a) the whereabouts of the spouse is unknown, or b) exceptional circumstances exist. For married CSRS participants, the only exception to the spousal notification rule is if the participant does not know the whereabouts of his/her spouse.

Total Withdrawal

Separated participants have the option of withdrawing their entire vested account balance. A total withdrawal includes three options: a single payment, an annuity, or a combination of the two. The rules for each option as discussed above still apply in instances where a combination withdrawal is elected (i.e., specified dollar amounts, taxes).

For married FERS, CSRS, and uniformed service participants requesting total withdrawals, including combination withdrawals, spouses' rights requirements apply only if the account balance is more than $3,500. If a married FERS or uniformed service participant with an account balance exceeding $3,500 elects a total withdrawal and does not request that the entire account balance be used to purchase a joint life annuity with 50 percent survivor benefit, level payments, and no cash refund feature, the spouse must waive this right by signing a spousal consent form. For a married CSRS participant with an account balance exceeding $3,500 electing a total withdrawal, the TSP must notify the participant's spouse of the withdrawal election. The spousal exceptions are the same as noted above in the partial withdrawal section. The participant may also be subject to an

[10] There are exceptions to the penalty tax requirements (i.e., public safety participants over age 50 are exempt from the penalty tax).

early withdrawal penalty of 10 percent if the participant is not at least age 59 ½ at the time of withdrawal or is not classified as a Public Safety Employee.

Required Minimum Distributions

The Internal Revenue Code (IRC) requires that participants who have separated from service receive a portion of their TSP account beginning the calendar year they become age 72 as of calendar year 2022 or 73 as of calendar year 2023. If a participant does not make an election to withdraw his/her account balance or begin receiving payments from his/her account before or during the first distribution year, the TSP must automatically send the RMD to the participant by April 1 of the second distribution year. RMD payments cannot be transferred or rolled over. The TSP system calculates the RMD based on the participant's account balance from the prior year's end balance and age factor using the IRS Uniform Lifetime Table. RMD payments are subject to 10 percent Federal tax withholding.

TSP In-Service Withdrawals[11]

FERSA permits a non-separated participant to withdraw employee contributions and attributable earnings from his or her TSP account due to financial hardship or based on age.

An in-service withdrawal is a means of providing participants (under limited circumstances) access to funds in their TSP accounts while they are employed by the Federal Government. This includes participants who are in a non-pay status. While outstanding TSP loans delay a partial or post separation withdrawal until the loan is repaid in full or treated as a taxable distribution, in-service withdrawals are not affected by an outstanding TSP loan[12].

In-service withdrawals can be requested by the participant online via the TSP system, by phone via the TSP call-center, or by paper form via mail.

Age-Based In-Service Withdrawals

Age-based in-service withdrawals allow participants who are age 59 ½ or older and active (i.e., still employed by the Federal government) to withdraw all or a portion of their vested account balances. Participants must request at least $1,000 or their entire vested account balance if their account balance is less than $1,000. The withdrawal is deducted from the participants' traditional

[11] Source: *Use Your Savings: In-Service Withdrawal Basics*, posted on www.tsp.gov.
[12] TSP loans are covered under a separate performance audit.

balance, Roth balance, or proportionally from both balances according to the participant's election, and proportionally from each investment fund in which the participant is invested at the time of disbursement.

Participants can receive up to four age-based in-service withdrawals from an account per calendar year and may take one aged-based withdrawal every 30 calendar days. If the participant has two separate TSP accounts (one as a Federal civilian employee and one as a member of the uniformed services), the participant can make age-based in-service withdrawals only from the account associated with the participant's current employment. If both participant accounts are active, age-based in-service withdrawals can be made from each account.

The in-service withdrawal cannot be repaid to the TSP and is subject to the 20 percent Federal withholding tax. Participants can choose to increase their tax withholding but are not allowed to decrease or waive it. In-service withdrawals are eligible rollover distributions; thus, the participant can transfer all or a portion of the withdrawal to an IRA or other eligible employer plan.

The TSP has spousal consent and notification requirements for in-service withdrawals. For married FERS or uniformed services participants, the spouse must consent to the withdrawal via a spousal consent form. For married CSRS participants, the TSP must notify the participant's spouse before the in-service withdrawal is made. For FERS or uniformed services participants, two exceptions can be made to the spousal consent rule: a) the whereabouts of the spouse is unknown, or b) exceptional circumstances exist. For married CSRS participants, the only exception to the spousal notification rule is if the participant does not know the whereabouts of his/her spouse. The participant must submit an exception request to the TSP and receive exception approval before an in-service withdrawal can be processed without spousal consent.

Financial Hardship In-Service Withdrawal

Financial hardship in-service withdrawals allow participants, regardless of age, who have a financial need to make a withdrawal of their own contributions and the earnings on their contributions, including any amounts transferred into the TSP account from an IRA or eligible employer plan, up to the amount of the financial need. Financial hardship withdrawals must be for an amount of $1,000 or greater.

To be eligible for a financial hardship withdrawal, participants must have a financial need that results from at least one of the following five conditions: negative monthly cash flow, eligible medical expenses (including household improvements needed for medical care), eligible personal casualty losses, eligible legal expenses for separation or divorce from a spouse, or losses due to a major natural disaster declared by the Federal Emergency Management Agency. Income information or documentation to substantiate the financial hardship is not required to be submitted. However, participants must certify on their withdrawal requests, under penalty of perjury, that they have a genuine financial hardship based on conditions described on the form.

There is no limit to the number of financial hardship in-service withdrawals that a participant can make; however, they are limited to one financial hardship withdrawal every six months. Financial hardship in-service withdrawals are deducted from the participant's traditional balance, Roth balance, or proportionally from both balances according to the participant's election, and proportionally from each investment fund in which the participant is invested at the time of disbursement. If a participant has two separate TSP accounts (e.g., Federal civilian and uniformed services), a financial hardship withdrawal can only be made from the account associated with current employment. If both accounts are associated with the participant's current employment, a financial hardship withdrawal can be made from both accounts. The IRS considers financial hardship withdrawals to be a non-periodic payment for Federal income tax purposes; thus, the TSP withholds 10 percent of the withdrawal. Participants can choose to increase or waive their tax withholding but are not allowed to decrease it. The participant may also be subject to an early withdrawal penalty tax of 10 percent if the participant is not age 59 ½ at the time of withdrawal.

For married FERS and uniformed services participants, spousal consent is required. For married CSRS participants, spousal notification is required. The same spousal requirement exceptions apply as previously indicated for age-based in-service withdrawals.

Death Benefits[13]

Designation of a beneficiary or beneficiaries can be made by the participant and is valid only for the TSP account(s) selected by the participant. The TSP pays death benefits according to the most recent beneficiary on file for the participant and is not effective unless it is on file with the TSP on or before the date of the participant's death. A will or other agreement is not valid for the disposition of a participant's TSP account.

[13] Source: *Life Changes: For Beneficiaries*, posted on www.tsp.gov.

If a participant has no beneficiary on file, death benefits must be paid in the following statutory order:

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

If the participant dies after separating from service or is the account holder of a beneficiary participant account, a next of kin, legal representative, or other responsible person must report the participant’s death to the TSP by calling the call-center or mailing a letter and providing a copy of the certified death certificate to the TSP before the TSP will process the death benefit payment. If a TSP participant dies while still in Federal service, the participant’s personnel or payroll office must report the participant’s death to the TSP. A copy of the certified death certificate must also be submitted to the TSP before the TSP will begin processing the death benefit payment.

Once notification of death and a certified death certificate have been received, if there was a valid beneficiary form on file with the TSP as of the date of the participant’s death, the TSP account will be distributed according to that designation. Otherwise, the participant’s account will be paid according to the order of precedence required by law as discussed above.

The TSP establishes beneficiary participant accounts (BPAs) for the spouses of deceased participants who are determined to be beneficiaries. If a spouse's share of death benefits is $200 or more, the TSP establishes and maintains a BPA for the spouse. The entire share is invested in an age-appropriate Lifecycle Fund until the spouse elects a different investment option or chooses to withdraw the money through either a single payment, installment payments, annuity, or a combination of these options.

Spouse beneficiaries have the option to leave their money with the TSP in their established BPA or can withdraw the money from their account. The rules and requirements related to BPAs (i.e., post separation withdrawals and RMDs) are consistent with the rules and requirements related to separated participants; however, withdrawals from BPA accounts are subject to a 10 percent tax withholding. If the spouse's share is less than $200, the TSP sends a check for the payment.

Non-spouse beneficiaries are unable to retain a TSP account. The death benefit payment will either be made directly to the beneficiary, to an "inherited" IRA, or can be transferred to the beneficiary's own TSP account if they are a current or former Federal Governmental employee with a TSP account. Upon the determination that a beneficiary for a death benefit is a non-spouse, a temporary account is created for the individual. Non-spouse beneficiaries have 90 days from the date the temporary account was established to initiate payment. Payments to non-spouse beneficiaries are subject to a 20 percent tax withholding.

Court Orders[14]

The TSP must honor a valid court order that awards all or part of a participant's (in-service or separated participant or beneficiary participant) vested TSP account balance to a party with a legal interest. The TSP must honor court orders related to divorce, annulment, legal separation, or garnishment to satisfy a participant's past-due alimony or child support obligations. The TSP must also honor all qualifying Federal tax levies as well as qualifying criminal restitution orders pursuant to the Mandatory Victims Restitution Act.

The TSP makes only one disbursement per payee under a court order or legal process; the TSP does not make a series of payments even if the participant's account balance is insufficient at the time of payment for the TSP to satisfy the payee's entire entitlement. However, the TSP will honor a second court order. The TSP does not make a series of payments because it is not considered a qualifying legal process under FERSA. A court order cannot require the TSP to pay more than the participant's vested account balance. Therefore, if the payee's entitlement exceeds the participant's vested account balance when the TSP pays the award, the TSP will only pay up to the vested account balance as of the date of disbursement. All payments are made pro rata from all TSP investments in which the participant is invested based on the balance in each fund on the date payment is made and from all contribution sources. If a participant has more than one type of TSP account (i.e., civilian, uniformed services, and beneficiary participant) the court order must explicitly identify each account separately and the payee's entitlement to the related account(s). A temporary account is established for all payees specified in the court order. The court order entitlement is transferred to and disbursed from the payee's temporary account.

[14] Source: *Life Changes: Planning for Life Events*, posted on www.tsp.gov.

D. TSP Withdrawals Process[15]

Online Withdrawal Requests

Most participants initiate post-separation and in-service withdrawal requests, including spousal consent, annuities, and transfers to other financial institutions, online via the TSP website. The website interface has built in edit checks that prevent participants who do not meet the criteria from having the ability to complete and submit withdrawal forms online. Additionally, there are edit checks related to the information that is entered into the online form by the participants. If the participant passes the edit checks, the details of the withdrawal request are automatically copied to the TSP system for processing. All withdrawal forms submitted successfully via the TSP website are processed as noted in the disbursement and processing section below. A copy of the completed withdrawal form from the website interface is maintained in the TSP system for record retention.

Paper Withdrawal Requests

Participants may elect to request a withdrawal via mail or fax. All forms received via mail or fax are stamped with the date received. Once date stamped, the mailed forms are entered into the TSP system [redacted] and the form is linked to the relevant participant's account. The TSP system performs edit checks on the input information to determine that the inputs are within the withdrawal requirements. The TSP system will prompt the PSR to enter the amount of the withdrawal request twice in the TSP system. If the two entries do not match, the TSP system will ask the user to re-enter the dollar amount again until the two amounts match. Forms that include all required elements of the withdrawal request are processed as noted in the disbursement and processing section below. If the form contains errors, a reject notice is generated and mailed to the participant.

Call-Center Withdrawal Requests

Participants may elect to request a withdrawal via the TSP call-center. When a participant places a call to the call-center, they are required to confirm their identity [redacted]. Once authenticated, the PSR enters the required information into the TSP system. The TSP system performs the same edit checks on the input information as referenced above for paper withdrawal

[15] Source: Internally-sourced system documentation.

requests. Once all required information is input into the TSP system, the withdrawal request is processed as noted in the disbursement and processing section below.

Withdrawal Disbursement and Reporting

On a daily basis, all withdrawal transactions that successfully completed the TSP system edit checks discussed above are automatically transferred to the payment module within the TSP system. On a daily basis, the TSP system sends a report of disbursement activity to the U.S. Department of Treasury (Treasury). Upon receipt, Treasury will edit the file and email the Agency a report of the total disbursements for certification. An accountant reconciles the number and dollar value of transactions in the report sent from Treasury to corresponding records in the TSP system to verify the accuracy. Once the accuracy is confirmed, a certifying officer will review the disbursement files and then certify the withdrawals for payment by Treasury. Upon certification, Treasury releases the batch of disbursements for processing. Treasury typically processes disbursements within one business day of receiving the complete disbursement information from the TSP. If the disbursement is made by check, Treasury usually needs additional time for disbursement.

After Treasury disburses funds, Treasury sends payment confirmation information to the Agency. The Office of Chief Financial Officer (OCFO) Accounting Division uses financial reports generated by the TSP system to prepare general ledger entries for withdrawal activity.

On a daily basis, an accountant within OFCO will generate withdrawals disbursement reports from the TSP system, which are used to input numbers into a journal entry template for posting to the general ledger. Once the template is completed and a provisional (preliminary) posting is created within the general ledger, the entry is reviewed by an accountant and then posted to the general ledger. After posting, the accountant will check the batch reports and the trial balance to ensure the entry was successfully posted. The documents are placed in a reconciliation package which is reviewed and signed by the supervisory accountant.

Additional Information on the TSP Court Order Withdrawals Process

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

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

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

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

TSP payments are made by a Treasury check directly to the payee or by direct deposit via EFT to the payee's financial institution. All or part of a payment to a current or former spouse under a court order or a legal process may be transferred to a traditional IRA or an eligible employer plan, with the exception of court-ordered payments made from beneficiary participant accounts. The TSP will generally disburse a payment 60 days after it issues the decision letter that describes the effect the court order or legal process will have on the participant's account. In certain situations, the payee can request to receive payment sooner; however, the TSP does not make, in any case, payments earlier than 31 days after the date of the TSP decision letter.

Additional Information on the Required Minimum Distributions Process

As previously discussed, the IRC requires that participants receive a portion of their TSP account beginning the calendar year they become age 72 as of calendar year 2022 or 73 as of calendar year 2023 and is separated from service. If the participant does not withdraw their account balance or begin receiving payments from their account, the TSP is required to make a distribution to the participant by April 1 of the following year (i.e., the second distribution year). The TSP sends out a notice every fall to all participants turning 72 as of calendar year 2022 or 73 as of calendar year 2023 (both active and separated) in the subsequent calendar year, notifying them of the RMD.

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

For those participants who have not made a withdrawal election for their first RMD year, a notice is sent to them in the following January indicating that they must be paid their first year RMD no later than April 1 of the same year. If the participant has not made a withdrawal election by March 1 of the second distribution year, the first year RMD payment is automatically sent to the participants.

Each January, the TSP recalculates the installment payments for those participants who have elected withdrawal payments based on life expectancy. Participants are sent a notice containing the new payment amount, and if they are due an RMD, the notice also indicates the RMD amount. The payments and the RMD are based on the participants' prior year-end balance and their life expectancy factor.

Any other elected withdrawals received by the participant during the year (e.g., partial, total, or combination withdrawals) are used to satisfy the RMD amount. Therefore, the actual RMD payment amount is based on the additional amount that is needed to be withdrawn beyond the withdrawals made by the participant's election method. Supplemental RMDs are issued in December if the total dollar amount of the payments made that year do not satisfy the RMD.

E. TSP Withdrawal Statistics

Exhibit I-1 illustrates the number of TSP post-separation withdrawals, including death benefit disbursements and court order disbursements, disbursed for calendar years 2018 through 2022. Exhibit I-2 illustrates the total TSP post-separation withdrawals disbursed in dollars for calendar years 2018 through 2022.

Exhibit I-1

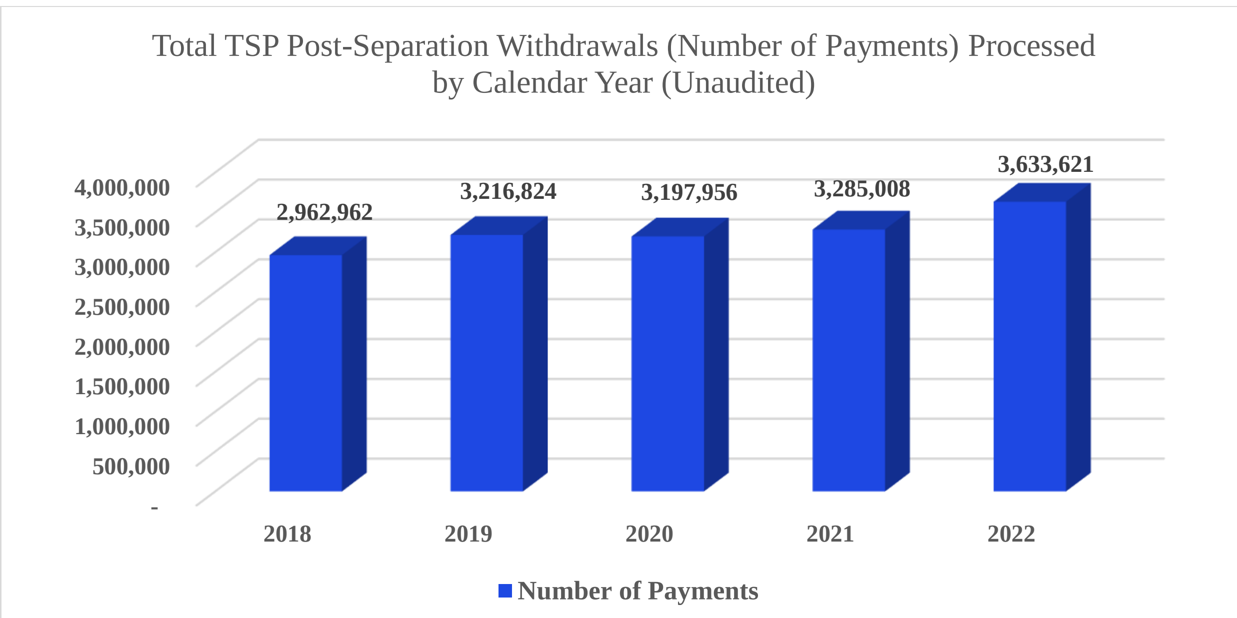


Exhibit I-2

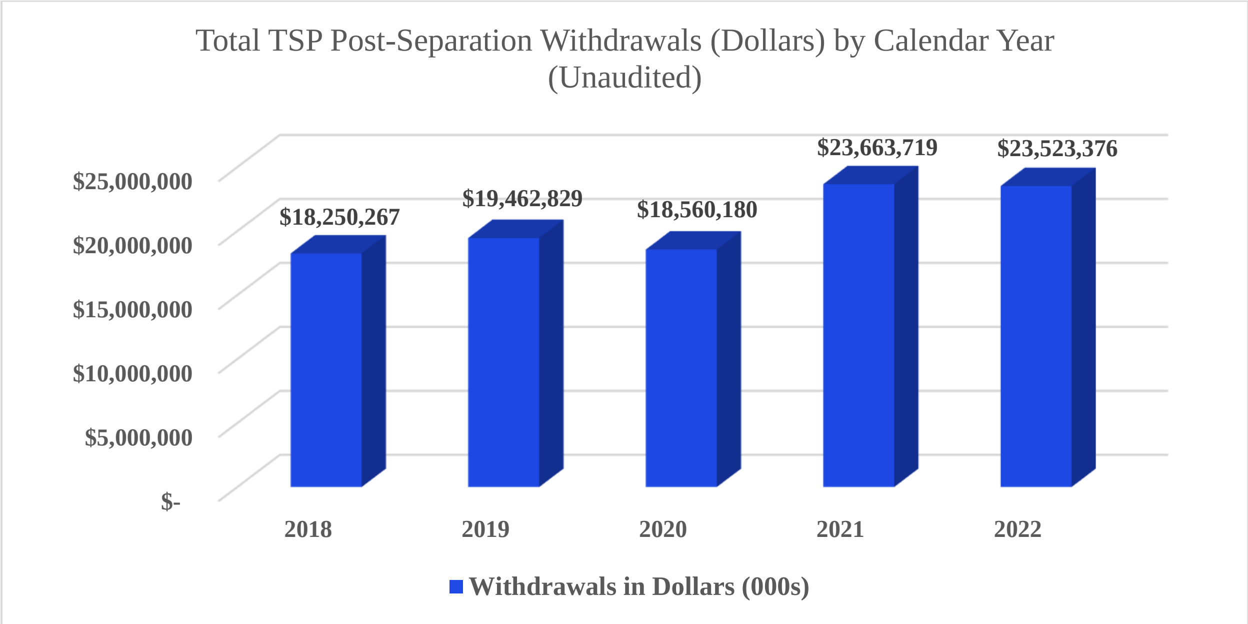


Exhibit I-3 illustrates the number of in-service withdrawals disbursed for calendar years 2018 through 2022. Exhibit I-4 illustrates in-service withdrawals disbursed, in dollars, for calendar years 2018 through 2022.

Exhibit I-3

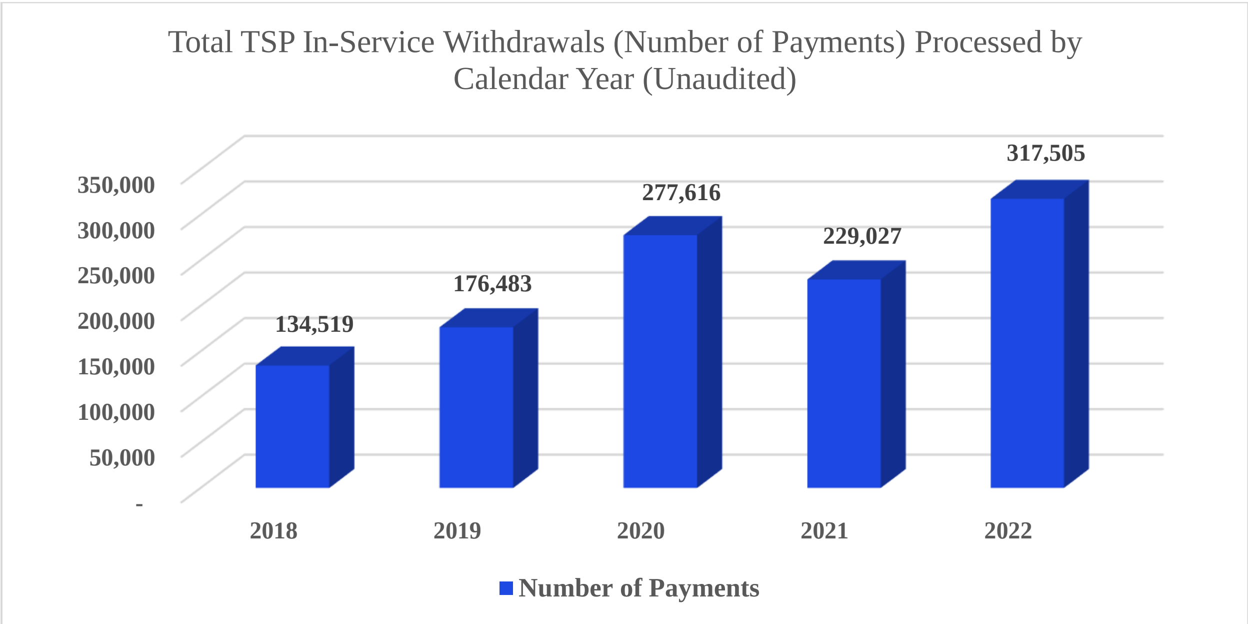


Exhibit I-4

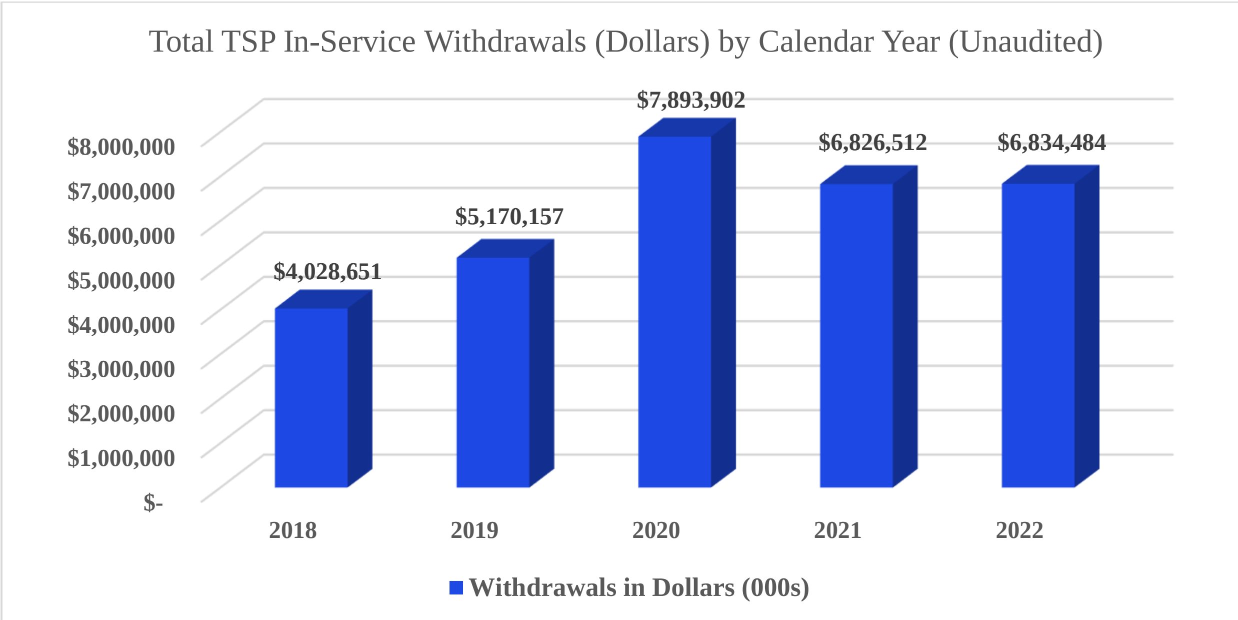
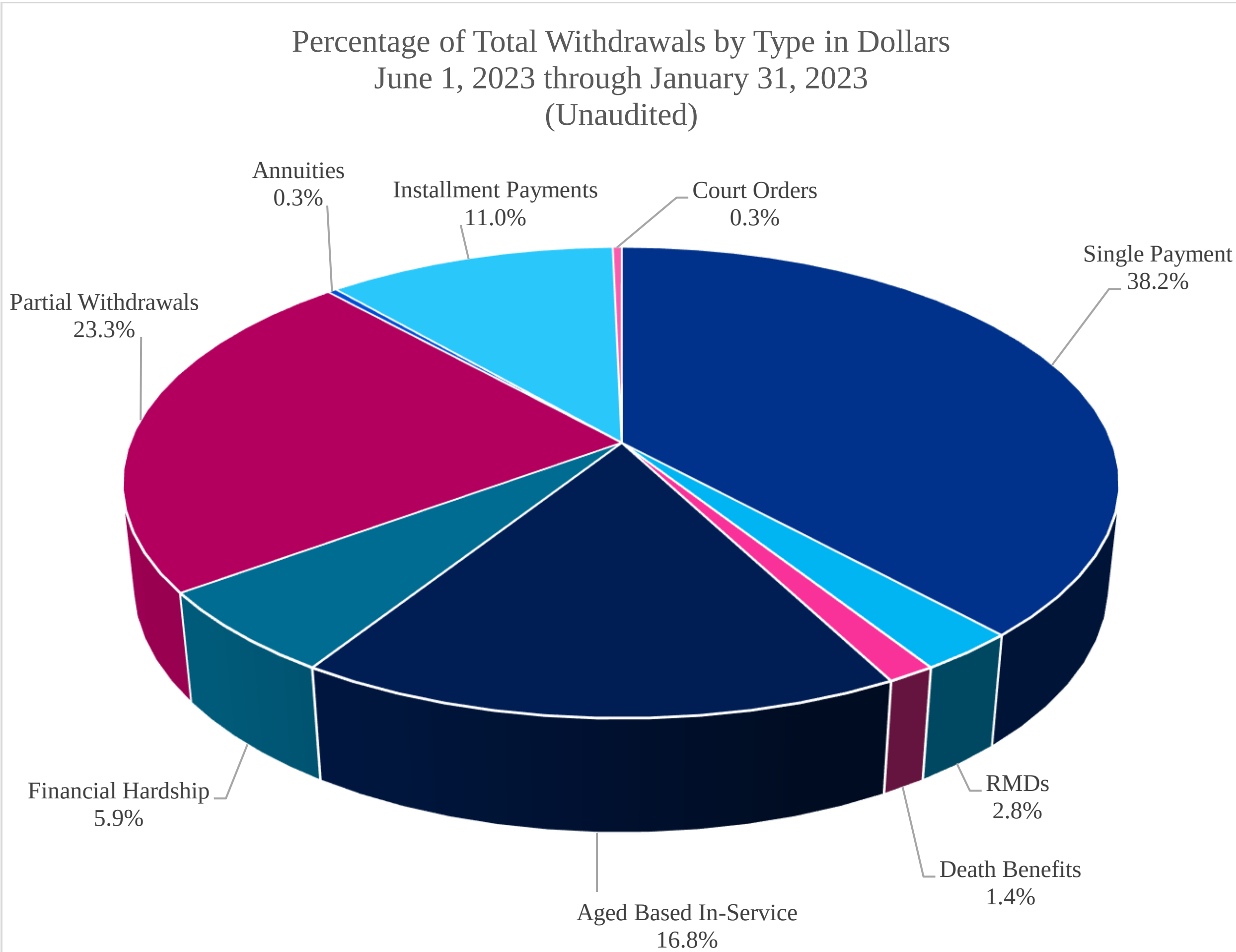

Total TSP In-Service Withdrawals (Dollars) by Calendar Year (Unaudited)
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
$4,028,651
$5,170,157
$7,893,902
$6,826,512
$6,834,484
2018
2019
2020
2021
2022
Withdrawals in Dollars (000s)

Exhibit I-5 illustrates the percentages of total withdrawal disbursements, by type, including both post-separation and in-service, from June 1, 2022 through January 31, 2023.

Exhibit I-5



II. OBJECTIVE, SCOPE, AND METHODOLOGY

A. Objective

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

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

- Determine if the Agency and its vendor implemented certain procedures to (1) promptly and accurately process TSP withdrawal transactions for individual participant accounts; (2) process authorized participant withdrawal payments in accordance with applicable regulations; and (3) accurately record withdrawals activity in the TSP accounting records; and
- Test compliance of the TSP withdrawals process in accordance with 5 United States Code (USC) Sections 8424(d), 8433, and 8435 (hereinafter referred to as FERSA), the Code of Federal Regulations (CFR) Title 5 Parts 1650, 1651, and 1653 (hereinafter referred to as Agency Regulations), and Public Laws 114-26 and 115-84.

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 June 1, 2022 through January 31, 2023. We performed the audit in four phases: (1) planning, (2) arranging for engagement with the Agency, (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 withdrawals process. Arranging the engagement included contacting the Agency and agreeing on the timing of detailed testing procedures.

During the testing and interviewing phase, we conducted interviews, collected and inspected auditee-provided documentation and evidence, participated in process walk-throughs, and designed and performed tests of controls[16, 17] and compliance. We conducted these test procedures remotely in coordination with personnel primarily from the Agency's headquarters in Washington, D.C. 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 withdrawals for the period June 1, 2022 through January 31, 2023, which we used to determine if the Agency processed withdrawals in a manner that complied with FERSA and Agency regulations. We selected the following samples in this manner:

- Post-separation withdrawals, to determine if (1) post-separation withdrawals were processed promptly, (2) all necessary documentation, per type of withdrawal (e.g., automatic cash-out, partial withdrawal, single payment, installment payment, and annuity) was accurately completed before a withdrawal was processed, and (3) the withdrawal amount was accurate and distributed to the proper payee;
- Court orders and death benefit payments, to determine if (1) court order and death benefit payments were processed promptly, (2) all necessary documentation was accurately completed before a withdrawal was made, and (3) the withdrawal amount was accurate and distributed to the proper payee;
- Spousal beneficiary participant accounts, to determine if accounts were established timely and for appropriate individuals;
- Changes to installment payments, to determine if (1) all necessary documentation was accurately completed before the withdrawal was processed, and (2) the withdrawal amount was accurate and distributed to the proper payee;
- Participants eligible for required minimum distributions (RMDs) in calendar year 2022 or 2023 to determine if (1) RMDs were processed timely during the scope period for selected

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[redacted]

[redacted]

participants who had met age limit and employment status requirements, and (2) RMDs were accurately calculated;

- Participants eligible for RMDs in calendar year 2022 or 2023, to determine if the participants were properly notified in a timely manner of the requirements to begin withdrawing their TSP account balance;
- In-service withdrawals, to determine if (1) in-service withdrawals were processed promptly, (2) all necessary documentation, per type of in-service withdrawal (e.g., age-based or financial hardship) was accurately completed before an in-service withdrawal was processed, and (3) the in-service withdrawal amount was accurate and distributed to the proper payee;
- Returned withdrawal checks/electronic funds transfers (EFTs), to determine if withdrawal checks and EFTs returned to the TSP were investigated and reissued in a timely manner; and
- Post-separation withdrawals for qualifying public safety employees, to determine if (1) TSP participants were appropriately coded in the TSP system as public safety; and (2) tax statements related to withdrawals processed for public safety participants appropriately reflected the withdrawal's penalty tax status.

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

We excluded from this audit the consideration of the TSP annuity-related procedures performed at the annuity vendor subsequent to the participant choosing an annuity as a withdrawal option. These procedures are addressed separately within the overall EBSA *Thrift Savings Plan Fiduciary Oversight Program*.

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

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) withdrawals process while remotely conducting a performance audit related to activities at the Federal Retirement Thrift Investment Board's Staff (Agency). Our scope period for testing was June 1, 2022 through January 31, 2023. 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 conclude that for the period of June 1, 2022 through January 31, 2023, the Agency and its vendor implemented certain procedures to (1) promptly and accurately process TSP withdrawal transactions for individual participant accounts; (2) process authorized participant withdrawal payments in accordance with applicable regulations; and (3) accurately record withdrawals activity in the TSP accounting records. However, we noted internal control weaknesses in certain areas that could adversely affect the TSP withdrawal process.

As a result of compliance testing, we did not identify any instances of noncompliance with United States Code Chapter 5, Sections 8424(d), 8433, and 8435, Code of Federal Regulations (CFR) Title 5, Part 1651, or Public Laws 114-26 and 115-84; however, we did identify instances of noncompliance with certain elements of 5 CFR 1653 as described in finding 2023-07 below.

We present nine new findings and seven new recommendations, presented in Section III.B, related to the TSP withdrawals process, which address fundamental or other controls. Fundamental control findings and 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 findings and recommendations address procedures or processes that are less significant than fundamental controls. These recommendations are intended to strengthen the TSP withdrawals process. The Agency should review and consider these recommendations for timely implementation. The Agency's response to these recommendations is included as an appendix within this report (Appendix A).

No prior findings or recommendations were within the scope of this audit. Section III.B presents the findings and recommendations from this performance audit. Section III.C summarizes the open recommendations.

B. 2023 Findings and Recommendations

While conducting our performance audit over the TSP withdrawals process, we identified five new fundamental control findings with related recommendations, two new other control findings with related recommendations, one new fundamental control finding without a related recommendation, and one new other control finding without a related recommendation. The U.S. Department of Labor Employee Benefits Security Administration requests appropriate and timely action for the recommendations.

FUNDAMENTAL CONTROL FINDINGS AND RECOMMENDATIONS

<u>2023-01: Insufficient Support for In-Service Withdrawals</u>

During our current year audit procedures, we tested a sample of [redacted] in-service withdrawals [redacted] and identified 6 instances in which the Agency could not provide support showing payment confirmation for the withdrawal.

The deficiency occurred because the Agency did not provide to its vendor and/or retain withdrawal documentation for its records subsequent to the implementation of the new recordkeeping system.

The Government Accountability Office's *Standards for Internal Control In the Federal Government*, paragraph 10.02, states:

> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system.

Additionally, paragraphs 13.04 and 13.05 state:

> Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements…Management processes the obtained data into quality information that supports the internal control system.

1. The Agency should retain all supporting documentation for withdrawal transactions to provide an accurate audit trail.

Without proper supporting documentation for in-service withdrawals, an increased risk exists that inappropriate or inaccurate withdrawals are processed.

2023-02: Insufficient Support for Post-Separation Withdrawals

During our current year audit procedures, we tested a sample of [redacted] post-separation withdrawals and identified 3 instances in which the Agency could not provide support showing payment confirmation for the withdrawal.

The deficiency occurred because the Agency did not provide to its vendor and/or retain withdrawal documentation for its records subsequent to the implementation of the new recordkeeping system.

The Government Accountability Office's *Standards for Internal Control In the Federal Government*, paragraph 10.02, states:

> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system.

Additionally, paragraphs 13.04 and 13.05 state:

> Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements…Management processes the obtained data into quality information that supports the internal control system.

2. The Agency should retain all supporting documentation for withdrawal transactions to provide an accurate audit trail.

Without proper supporting documentation for post-separation withdrawals, an increased risk exists that inappropriate or inaccurate withdrawals are processed.

2023-03: Insufficient Support for Court Order Withdrawals

During our current year audit procedures, we tested a sample of [redacted] court order withdrawals and noted the Agency was unable to provide sufficient supporting documentation for multiple sample items. Specifically, we identified two instances in which the Agency could not provide support showing that the decision letter was sent to the participant, three instances in which the Agency could not provide support showing payment confirmation for the withdrawal, and eight instances in which the Agency could not provide support showing asset transfer confirmation for the withdrawal.

The deficiency occurred because the Agency did not have effective internal controls in place to retain withdrawal documentation for its records prior to and subsequent to the implementation of the new recordkeeping system.

The Government Accountability Office's *Standards for Internal Control In the Federal Government*, paragraph 10.02, states:

> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system.

Additionally, paragraphs 13.04 and 13.05 state:

> Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements…Management processes the obtained data into quality information that supports the internal control system.

3. The Agency should retain all supporting documentation for withdrawal transactions to provide an accurate audit trail.

Without proper supporting documentation for court order withdrawals, an increased risk exists that inappropriate or inaccurate withdrawals are processed.

2023-04: Beneficiary Participant Account Automatic Force-Out Deficiency

During our current year audit procedures, we tested a sample of [redacted] post-separation withdrawals and noted a deficiency related to the automatic 90-day force-out for non-spouse beneficiaries converted from the prior system. Specifically, for one beneficiary account that was created on August 6, 2017, the automatic force-out was not processed on the converted data in the recordkeeping system until January 19, 2023.

The deficiency occurred because a system error was identified in the new recordkeeping system during initial implementation that did not identify the beneficiary accounts from the prior recordkeeping system that met the requirements of the 90-day automatic force-out.

[redacted]

[redacted]

The Government Accountability Office's *Standards for Internal Control In the Federal Government*, paragraph 10.02, states:

> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system.

Additionally, paragraph 10.06 states:

> Automated control activities are either wholly or partially automated through the entity's information technology…If the entity relies on information technology in its operations, management designs control activities so that the information technology continues to operate properly.

4. The Agency should ensure that sufficient controls are in place to automatically force-out beneficiary accounts on a timely basis and in accordance with applicable regulations.

Without sufficient controls in place to ensure that automatic force-outs for beneficiaries are processed timely, an increased risk exists that withdrawals are not processed in accordance with applicable regulations.

2023-05: Deficiency Related to Spousal Consent Forms

During our current year audit procedures, we tested a sample of [redacted] in-service withdrawals and [redacted] post-separation withdrawals and noted a deficiency related to the requested withdrawal listed on the spousal consent forms. Specifically, we identified eight instances in which the spousal consent forms listed a requested withdrawal amount of $0 rather than the requested withdrawal amount per the participant form.

The deficiency occurred because of an Agency identified system error in the new recordkeeping system that was discovered in January 2023.

The Government Accountability Office's *Standards for Internal Control In the Federal Government*, paragraph 10.06 states:

> If the entity relies on information technology in its operations, management designs control activities so that the information technology continues to operate properly.

Additionally, paragraphs 13.04 and 13.05 state:

> Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements…Management processes the obtained data into quality information that supports the internal control system.

Additionally, paragraph 16.05 states:

> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

5. The Agency should ensure that sufficient controls are in place to validate that the information listed on the spousal consent form reconciles to the participant form.

Without sufficient controls in place to ensure spousal consent forms are accurately prepared, an increased risk exists that inappropriate or inaccurate withdrawals are processed.

OTHER CONTROL FINDINGS AND RECOMMENDATIONS

2023-06: Deficiencies in Manual Withdrawal Entries

During our current year audit procedures, we tested withdrawal controls and noted a deficiency in the review of manual withdrawal transactions. As a result, we determined the control was not adequately designed to review manual withdrawal transactions entered on behalf of the participant. Specifically, we noted there was no secondary review over withdrawals requested via the TSP call-center or mail and entered into the system before or after the withdrawal is processed.

The deficiency occurred because the Agency did not determine that a secondary review control was relevant to the withdrawals process for certain manual requests.

The Government Accountability Office's *Standards for Internal Control In the Federal Government*, paragraph 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.

6. **The Agency should design and implement a secondary review of the information entered into the system manually [redacted] as it relates to withdrawals requested via the TSP call-center and mail, before the withdrawal is processed.**

Without sufficient controls in place to verify manual withdrawal requests are sufficiently reviewed, an increased risk exists that inappropriate or inaccurate withdrawals are processed.

2023-07: Untimely Disbursement of Court Order Withdrawals

During our current year audit procedures, we tested a sample of [redacted] court order withdrawals and noted a deficiency related to the timing of the disbursement. Specifically, we identified three instances in which the withdrawal was not disbursed within 31 to 60 days after the asset transfer was posted.

The deficiency occurred because the Agency did not have sufficient controls in place to timely review and process court order withdrawals in accordance with applicable regulations and Agency guidelines.

CFR Title 5, Part 1653, Section 5, states:

> Payment pursuant to a qualifying retirement benefits court order [or qualifying legal process or child abuse court order] will generally be made: (1) As soon as administratively practicable after the date of the decision letter when the payee is the current or former spouse of the participant, but in no event earlier than 30 days after the date of the decision letter. (2) As soon as administratively practicable after the date of the decision letter when the payee is someone other than the current or former spouse of the participant.

CFR Title 5, Part 1653, Section 36, states:

> Payment pursuant to a qualifying tax levy or criminal restitution order will be made 30 days after the date of the decision letter.

[redacted]

> [redacted]

[redacted]

> [redacted]

The Government Accountability Office's *Standards for Internal Control In the Federal Government*, paragraph 16.05, states:

> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

7. The Agency should ensure that sufficient controls are in place to review and process court order withdrawals on a timely basis and in accordance with applicable regulations.

Without sufficient review controls in place to ensure that court order withdrawals are processed timely, an increased risk exists that withdrawals are not processed in accordance with applicable regulations.

FUNDAMENTAL CONTROL FINDING WITHOUT A RECOMMENDATION

2023-08: Deficiency in Installment Payment Withholding

During our current year audit procedures, we tested a sample of [redacted] installment changes and related withdrawals. While testing the sample we noted a deficiency in the calculation of withholding amounts. Specifically, we identified two instances in which the installment amount recorded in the recordkeeping system incorrectly calculated the withholding amount, and therefore did not disburse the proper amount to the participant.

The deficiency occurred because of an Agency identified system error in the new recordkeeping system during initial implementation in June 2022 that incorrectly calculated certain withholdings. We did note that the Agency timely remediated the system error in July 2022 and re-processed the installments. We did not note any additional deficiencies subsequent to the system remediation during our testwork. Therefore, we did not consider a recommendation necessary related to this finding.

OTHER CONTROL FINDING WITHOUT A RECOMMENDATION

<u>2023-09: Deficiencies in In-Service Withdrawals for Separated Participants</u>

During our current year audit procedures, we tested a sample of [redacted] in-service withdrawals [redacted] and noted a deficiency related to the in-service status for participants. Specifically, we identified six instances in which an in-service withdrawal was initiated and processed after the participant's separation date.

The deficiency occurred because the employing agency of the participant did not timely notify the Agency of the participant's separation date for processing in the recordkeeping system. We did note that the Agency timely processed the separation documentation once they were received. Therefore, we did not consider a recommendation necessary related to this finding.

C. Summary of Open Recommendations

<u>2023 RECOMMENDATIONS</u>

RECOMMENDATIONS TO ADDRESS FUNDAMENTAL CONTROLS

Insufficient Support for In-Service Withdrawals

1. The Agency should retain all supporting documentation for withdrawal transactions to provide an accurate audit trail.

Insufficient Support for Post-Separation Withdrawals

2. The Agency should retain all supporting documentation for withdrawal transactions to provide an accurate audit trail.

Insufficient Support for Court Order Withdrawals

3. The Agency should retain all supporting documentation for withdrawal transactions to provide an accurate audit trail.

Beneficiary Participant Account Automatic Force-Out Deficiency

4. The Agency should ensure that sufficient controls are in place to automatically force-out beneficiary accounts on a timely basis and in accordance with applicable regulations.

Deficiency Related to Spousal Consent Forms

5. The Agency should ensure that sufficient controls are in place to validate that the information listed on the spousal consent form reconciles to the participant form.

RECOMMENDATIONS TO ADDRESS OTHER CONTROLS

Deficiencies in Manual Withdrawal Entries

6. The Agency should design and implement a secondary review of the information entered into the system manually [redacted] as it relates to withdrawals requested via the TSP call-center and mail, before the withdrawal is processed.

Untimely Disbursement of Court Order Withdrawals

7. The Agency should ensure that sufficient controls are in place to review and process court order withdrawals on a timely basis and in accordance with applicable regulations.

AGENCY'S RESPONSE

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

June 14, 2023

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 May 24, 2023, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of Withdrawals Process, dated June 2022. My comments with respect to this report are enclosed.

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

Very truly yours,

Ravindra Deo

Ravindra Deo

Enclosure

AGENCY'S RESPONSE, CONTINUED

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

2023 FUNDAMENTAL CONTROL FINDINGS AND RECOMMENDATIONS

2023-01: Insufficient Support for In-Service Withdrawals

Finding: During our current year audit procedures, we tested a sample of [redacted] in-service withdrawals ([redacted] age-based and [redacted] hardship) and identified 6 instances in which the Agency could not provide support showing payment confirmation for the withdrawal.

Recommendation: The Agency should retain all supporting documentation for withdrawal transactions to provide an accurate audit trail.

Agency Response:

The Agency concurs. The Agency maintains supporting documentation as required and will take the necessary steps to improve the ability to retrieve supporting documentation for withdrawal transactions from the past. [redacted]

The Agency will create a detailed Corrective Action Plan within 90 days of the audit report issuance.

2023-02: Insufficient Support for Post-Separation Withdrawals

Finding: During our current year audit procedures, we tested a sample of [redacted] post-separation withdrawals and identified 3 instances in which the Agency could not provide support showing payment confirmation for the withdrawal.

Recommendation: The Agency should retain all supporting documentation for withdrawal transactions to provide an accurate audit trail.

Agency Response:
The Agency concurs. The Agency maintains supporting documentation as required and will take the necessary steps to improve the ability to retrieve supporting documentation for withdrawal transactions from the past. [redacted]

The Agency will create a detailed Corrective Action Plan within 90 days of the audit report issuance.

AGENCY'S RESPONSE, CONTINUED

2023-03: Insufficient Support for Court Order Withdrawals

Finding: During our current year audit procedures, we tested a sample of [redacted] court order withdrawals and noted the Agency was unable to provide sufficient supporting documentation for multiple sample items. Specifically, we identified two instances in which the Agency could not provide support showing that the decision letter was sent to the participant, three instances in which the Agency could not provide support showing payment confirmation for the withdrawal, and eight instances in which the Agency could not provide support showing asset transfer confirmation for the withdrawal.

Recommendation: The Agency should retain all supporting documentation for withdrawal transactions to provide an accurate audit trail.

Agency Response:
The Agency concurs. The Agency maintains supporting documentation as required and will take the necessary steps to improve the ability to retrieve supporting documentation for withdrawal transactions from the past. [redacted]

The Agency will create a detailed Corrective Action Plan within 90 days of the audit report issuance.

2023-04: Beneficiary Participant Account Automatic Force-Out Deficiency

Finding: During our current year audit procedures, we tested a sample of [redacted] post-separation withdrawals and noted a deficiency related to the automatic 90-day force-out for non-spouse beneficiaries converted from the prior system. Specifically, for one beneficiary account that was created on August 6, 2017, the automatic force-out was not processed on the converted data in the recordkeeping system until January 19, 2023.

Recommendation: The Agency should ensure that sufficient controls are in place to automatically force-out beneficiary accounts on a timely basis and in accordance with applicable regulations.

Agency Response:
The Agency concurs. [redacted]

The Agency will create a detailed Corrective Action Plan within 90 days of the audit report issuance.

AGENCY'S RESPONSE, CONTINUED

2023-05: Deficiency Related to Spousal Consent Forms

Finding: During our current year audit procedures, we tested a sample of [redacted] in-service withdrawals and [redacted] post-separation withdrawals and noted a deficiency related to the requested withdrawal listed on the spousal consent forms. Specifically, we identified eight instances in which the spousal consent forms listed a requested withdrawal amount of $0 rather than the requested withdrawal amount per participant form.

Recommendation: The Agency should ensure that sufficient controls are in place to validate that the information listed on the spousal consent form reconciles to the participant form.

Agency Response:
The Agency concurs. The Agency has acknowledged that this was a known system issue that was communicated and remediated. The Agency will evaluate the existing controls that have been put in place and take any necessary steps if additional controls are needed.

The Agency will create a detailed Corrective Action Plan within 90 days of the audit report issuance.

2023 OTHER CONTROL FINDINGS AND RECOMMENDATIONS

2023-06: Deficiencies in Manual Withdrawal Entries

Finding: During our current year audit procedures, we tested withdrawal controls and noted a deficiency in the review of manual withdrawal transactions. As a result, we determined the control was not adequately designed to review manual withdrawal transactions entered on behalf of the participant. Specifically, we noted there was no secondary review over withdrawals requested via the TSP call-center or mail and entered into the system before or after the withdrawal is processed.

Recommendation: The Agency should design and implement a secondary review of the information entered into the system manually [redacted], as it relates to withdrawals requested via the TSP call-center and mail, before the withdrawal is processed.

Agency Response:
The Agency concurs. The Agency will provide a secondary review of manual forms inputs for all transactions greater than a certain threshold, which will be determined after further analysis.

The Agency will create a detailed Corrective Action Plan within 90 days of the audit report issuance.

2023-07: Untimely Disbursement of Court Order Withdrawals

Finding: During our current year audit procedures, we tested a sample of [redacted] court order withdrawals and noted a deficiency related to the timing of the disbursement. Specifically, we identified three instances in which the withdrawal was not disbursed within 31 to 60 days after the asset transfer was posted.

AGENCY'S RESPONSE, CONTINUED

Recommendation: The Agency should ensure that sufficient controls are in place to review and process court order withdrawals on a timely basis and in accordance with applicable regulations.

Agency Response:
The Agency concurs. The Agency recognizes that the Court Order disbursements in question were caused by manual processing error and the Agency will take the necessary steps to ensure all processing Standard Operating Procedures are updated and clarified accordingly. [redacted]

The Agency will create a detailed Corrective Action Plan within 90 days of the audit report issuance.

KEY DOCUMENTATION AND REPORTS REVIEWED

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

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]

Thrift Savings Plan (TSP) System Service Provider Documents and Reports

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
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KEY DOCUMENTATION AND REPORTS REVIEWED

- [redacted]
- [redacted]
- [redacted]
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KEY DOCUMENTATION AND REPORTS REVIEWED

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