KPMG

Employee Benefits Security Administration

Performance Audit of the Thrift Savings Plan Loans Process

July 20, 2021

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EXECUTIVE SUMMARY

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

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) loans process. Our fieldwork was performed remotely from February 1, 2021 through May 17, 2021, in coordination with personnel primarily from the Federal Retirement Thrift Investment Board's Staff's (Agency) headquarters in Washington, DC. Our scope period for testing was January 1, 2020 through December 31, 2020.

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

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

- Determine whether the Agency implemented certain procedures to (1) process TSP loan transactions promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (2) disburse TSP loans in accordance with regulations and participant authorizations; (3) limit participation in the TSP loan program to participants who meet eligibility criteria; and (4) accurately record loan activity in the TSP accounting records;

- Test compliance of the TSP loans process with 5 USC 8433(g) and 8435(e)(g) (hereinafter referred to as FERSA), 5 CFR 1655 (hereinafter referred to as applicable Agency regulations), and Public Law 116-136, *Coronavirus Aid, Relief, and Economic Security Act* (hereinafter referred to as the CARES Act);

- Determine whether the Agency implemented certain procedures over changes to the loans process required by the CARES Act (in response to the coronavirus pandemic); and

- Assess the status of all prior EBSA TSP open recommendations reported in *Performance Audit of the Thrift Savings Plan Loans Process,* dated June 7, 2018.

We present two new findings and one new recommendation, presented in Section III.C, related to the TSP loans process, which address "other" controls. Fundamental control findings and 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 findings and recommendations address procedures or processes that are less significant than fundamental controls. This recommendation is intended to strengthen the TSP loans process. The Agency should review and consider this recommendation for timely implementation. Section III.C presents the details that support the current year findings and recommendation.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We determined that for the period January 1, 2020 through December 31, 2020, the Agency implemented certain procedures to (1) process TSP loan transactions promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (2) disburse TSP loans in accordance with regulations and participant authorizations; (3) limit participation in the TSP loan program to participants who meet eligibility criteria; and (4) accurately record loan activity in the TSP accounting records. In addition, we determined that the Agency implemented certain procedures over changes to the loans process as required by the CARES Act (in response to the coronavirus pandemic). As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA, Agency Regulations or the CARES Act. However, as indicated above, we noted internal control weaknesses that could adversely affect the TSP loans process.

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

We also reviewed three prior EBSA recommendations related to the TSP loans process to determine their current status. Section III.B documents the status of these prior recommendations. In summary, all three recommendations have been implemented and closed.

The Agency's response to the recommendation, including the Executive Director's formal reply, is included as an appendix within the report (Appendix A). The Agency concurred with the recommendation.

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

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

KPMG LLP

July 20, 2021

I. BACKGROUND OF THE TSP AND THE LOANS PROCESS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Saving Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System (FERS) and provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions on April 1, 1987, and as of December 31, 2020, had approximately $710 billion in assets and approximately 6.2 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 Board's Staff (Agency) is responsible for administering TSP operations.

B. Overview of the TSP Loans Process[3]

1. Loan Requirements – Borrowing Rules

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

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

[2] Source: Minutes of January 26, 2021, Federal Retirement Thrift Investment Board meeting, posted on www.frtib.gov.
[3] Sources: *TSP Loan Booklet*, January 2018; TSP Bulletin 05-16, *Processing Thrift Savings Plan Loan Payments in the TSP Record Keeping System*[redacted].

documentation is reviewed to determine if all information applicable to the loan is appropriate and complete.

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

- The participant must be an active Federal employee or uniformed service member and must be in pay status with their respective agency.
- The participant must have at least $1,000 of his/her own contributions, including related earnings, in his/her account as the smallest amount a participant can borrow is $1,000.
- The loan must comply with Internal Revenue Code (IRC)[4] requirements such that the borrowed amount cannot exceed the lesser of the following: (1) 50 percent of a participant's total vested account balance (including any outstanding loan balance) or $10,000, whichever is greater, minus any outstanding loan balance; or (2) $50,000 less the participant's highest outstanding loan balance, if any, during the last 12 months. Therefore, a participant's total outstanding loan principal balance may not exceed $50,000 at any given time. In addition, Code of Federal Regulations (CFR) Title 5, Part 1655.6(b) requires that the borrowed amount cannot exceed employee contributions and related earnings in the participant's account, not including any outstanding loan balance. For *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) loans, the maximum loan amount increased to $100,000 and participants were able to borrow up to 100% of their vested balance[5]. See section B.7 for additional details on CARES Act loans.
- If the participant has a civilian account and a uniformed service account, the combined account balances and loan balances will be used when meeting the IRC and CFR requirements listed above.
- Participants cannot have two loans of the same type outstanding at the same time in the same account type (i.e., civilian account vs. uniformed services account) but are allowed to have one general-purpose loan and one residential loan outstanding simultaneously.
- Participants who pay off their TSP loans are not eligible to apply for another loan of the same type for 60 calendar days after full repayment.

[4] IRC Title 26 Chapter 72(p)(2)(A).
[5] TSP Bulletin 20-3, *CARES Act: Impact to Thrift Savings Plan Loans – UDPATE*

- Participants who default on a loan and receive a taxable distribution are not eligible to apply for another loan for 365 calendar days after the taxable distribution.

2. Loan Application Process

Participants complete a loan application to apply for a TSP Loan. The loan application can be requested through the ThriftLine (TSP's automated telephone service) with the help of a Participant Support Representative (PSR). Participants may also apply for a loan online, via the TSP website, and depending on the participant's retirement system coverage, marital status, the type of loan, and method selected for receipt of funds, the participant may be able to complete the loan process entirely online.

Paper Loan Requests

One of the primary reasons a participant cannot complete a loan application completely online is that they are a married Federal Employees' Retirement System (FERS) employee or a married uniformed services member. In this case, signed spousal consent on the loan application is required. For married Civil Service Retirement System (CSRS) participants, the TSP is only required to notify the spouse when the participant applies for a loan. The spouse's signature on the loan application must be notarized; however, due to the impact of the coronavirus pandemic during a portion of the scope period, the notarization requirement was waived. In certain instances, a participant may receive a spousal waiver if he/she can show that their spouse's whereabouts are unknown or exceptional circumstances make it inappropriate to secure the spouse's consent.

Completed paper loan applications and those that cannot be completed entirely online are mailed or faxed directly to the TSP Service Bureau for scanning and data entry. Beginning in July 2020, applicants could also upload their applications directly to the TSP system via their online TSP account. Mail, fax, and uploads all get sent to the same queue in the TSP system. The TSP Service Bureau reviews and approves loan agreement packages for all applications that are not or cannot be submitted via the TSP website. Once the TSP Service Bureau receives the completed loan package from the participant, they review the supporting documentation supplied in the loan package to verify that all required documentation has been received. The following explains the specific requirements for the two types of loans:

- General-purpose loan - Documentation of the reason requested is not required.

- Residential loan - A primary residence can be a house, condominium, a share in a cooperative housing corporation, a mobile home, townhouse, a boat, or a recreational vehicle, but it must be used as the participant's primary residence. The participant must be either purchasing an existing residence (whole or in part) or constructing a new residence. A loan may not be used for refinancing an existing mortgage or for renovations. Evidence for demonstrating cost of a new build may include work permits and/or material orders.

The TSP system performs various edit checks on the applications received to determine whether the participant is eligible for a loan and whether any suspected errors or discrepancies exist. This process includes verification of the participant's identity as the system matches the applicant information to information on record for the applicant's TSP account number, as well as other edit checks. If suspected errors or discrepancies exist, they are highlighted for the data entry operator to determine whether any errors occurred. If the data imaged matches the data on the forms, the data entry operator forwards the forms to quality control (QC). Incomplete, inaccurate, or duplicate loan applications are rejected and returned to the participant for correction and resubmission.

If the applications are determined to be free of errors, the loan transaction information from the loan applications is transmitted to the nightly unified processing cycle. During the nightly unified processing cycle, the TSP system performs additional edit checks on the transaction information from the loan application to determine if the participant is still eligible to receive the loan requested. If the system edit checks are passed, the TSP system generates a loan agreement which includes pertinent loan data, such as the loan number, participant information, loan terms, and interest rate, and it is mailed to the participant for completion.

The participant must review the information and complete the loan agreement by signing and returning the loan agreement to the TSP [redacted] before the expiration date. Similar to the loan application process, married FERS and uniformed services participants must obtain their spouse's signature on the loan agreement. Their spouse's signature must be notarized; however, the Agency waived the notarization requirement pandemic for a portion of the scope period because of the impact of the coronavirus pandemic. A loan agreement not completed by its expiration date expires and the participant is required to submit a new application.

All loan agreements sent to the TSP [redacted] are scanned into the TSP system and sent through the same process as noted for a loan application. The TSP system performs additional edit checks on the loan agreements to verify accuracy and completeness of the agreement.

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

<u>Electronic Loan Requests</u>

If the participant is applying for a general-purpose loan, is not a married FERS or uniformed services participant, and elects to have the loan payment sent via check to the address on record, the participant is able to submit the loan request completely online. Participants can complete loan applications via the TSP web which interfaces to the TSP system. The TSP web interface performs various edits on the data that the participants enter (e.g. loan amount and loan term are within prescribed parameters). Participants are alerted to any detected errors online and cannot submit the application without correcting the errors. If the submitted loan application passes the aforementioned edit checks, the loan is approved immediately and application results in the immediate generation of a loan agreement. [redacted] The Agency relies on the participant having an existing online TSP account and username/password as verification of their identity.

3. Loan Disbursement and Reamortizations

Once the loan has been approved, the loan is scheduled for disbursement at the lesser of the amount in the loan agreement or what is available upon disbursement based on the market value of the participant's investments. The TSP system is configured to automatically decrease the loan amount if a change in market value has caused the loan amount to exceed the available balance in the participant's account. The TSP disburses loans either through an electronic funds transfer (EFT) or by check, as indicated by the participant. The loan principal is disbursed from that portion of the account represented by employee contributions and attributable earnings, pro rata from each TSP Fund in which the account is invested and pro rata from traditional, Roth, and tax-exempt balances. The TSP system is configured to automatically calculate the participant's amortization schedule based on the terms of the loan agreement. The same day or within one business day of the loan disbursement, the TSP system generates a confirmation notice that is mailed to the participant. If the loan is disbursed for a lesser amount than in the loan agreement, the confirmation notice informs the participant of the change. The loan interest rate is the G Fund rate at the time the participant's loan agreement is modeled. Once the loan is disbursed, the TSP system accrues interest automatically for the entire loan term.

A fee of $50 is charged for each new loan. The fee is automatically deducted from the proceeds of the loan at disbursement and is posted to the TSP's general ledger on a daily basis using reports from the TSP system.

Prior to and after disbursement of a loan, participants can access the terms of their loans via the TSP web interface. Participants may voluntarily re-amortize their loans online or through the TSP call center at any time in order to lower their loan payments or to change their term of repayment. However, any loan re-amortized must continue to comply with TSP requirements for a maximum five-year term for general-purpose loans and 15 year term for residential loans. No fee is charged to the participant for re-amortization of a loan.

4. Loan Accounting and Reconciliations

The Office of Participant Services (OPS) and the Office of the Chief Financial Officer (OCFO) perform various daily reconciliations between the general ledger, the TSP system, U.S. Department of the Treasury (Treasury), and the Federal Reserve Bank (FRB) to ensure completeness, existence and accuracy of the disbursed funds, outstanding loans, and loan payments.

On a daily basis, an accountant within OCFO reconciles outstanding loan activity within the TSP system to the general ledger at the fund level. In addition, the OPS accounting division performs a daily reconciliation of loan payments recorded by the Federal Reserve Board (Treasury) to those recorded by the Agency general ledger at the plan level. The OPS accounting division also performs a reconciliation of all disbursement activity, including loan disbursements, between the TSP payment system and TSP recordkeeper. Finally, the OPS accounting division performs a daily reconciliation between checks received by the [redacted]. These reconciliations are also performed at the plan level on a daily basis.

The Agency maintains two general ledger systems – one at the participant level (also referred to as the plan GL) and one at the fund level (also referred to as the Agency GL). The plan GL posts automated journal entries to the TSP system on a daily basis based on cash received and disbursed. For the fund level GL, the OCFO's Accounting Division uses financial reports generated by the investment management system to prepare a manual journal entry for daily loan activity.

5. Payroll Office Loan Repayment Withholding Calculation and Reporting

All loans are set to be repaid through payroll withholding. Upon completion of the loan disbursement, a TSP report containing pertinent employee information is sent electronically to the participant's Federal agency payroll office to initiate payroll deductions from the participant's pay. These reports are only sent to payroll agencies regarding a participant if 1) a loan has been disbursed and payments are required to be withheld from the participant's paycheck, 2) the loan has been paid off or been declared a taxable distribution and payments should cease, or 3) the loan has been changed or re-amortized and the payment amount previously withheld has changed.

Federal agency payroll offices submit loan payments to the TSP in the form of a Journal Voucher (JV) and payroll file. TSP loan repayments are received via the payroll deductions and submitted via the [redacted], which is a key application that supports and processes submissions by Federal agencies. If the payment information matches a TSP loan account, the payment is transmitted to the TSP system, which automatically completes the processing of the loan payment and applies the payment to the participant's account pro rata. If the payment is rejected by the TSP system, it is returned to the employing agency payroll office. Scheduled loan payments must be made through payroll deductions. Principal repayments and interest payments are allocated pro-rata based on the participant's source at loan issuance and based on the participant's current allocation rates by fund. Participants are responsible for ensuring that loan payments are being properly withheld from their paychecks.

Participants may also make additional payments on their loans (i.e., catch-up payments to bring their loan balances current, or prepayments). Additional payments can be made directly to the TSP via personal checks submitted to the Treasury lockbox at the discretion of the participant. The additional payment is allocated to the participant's account based upon the participant's most recent contribution allocation. Participants did have the option during calendar year 2020 to suspend loan payments because of the coronavirus pandemic. See section B.7 for additional details.

6. Treatment of Loan Prepayments, Refunds, and Delinquencies

Loan Prepayments

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

Participants may either call the ThriftLine or visit the TSP website (www.tsp.gov) to determine their exact outstanding loan amount(s). The balance will reflect all unpaid principal and interest at the time of request plus 30 days of interest for processing. The participant sends the payment along with a loan payment coupon to the TSP for processing. All checks must be made payable to the Thrift Savings Plan, include the loan number and social security number, and be sent by the participant to the Treasury lockbox. Personnel at the lockbox review the loan payment coupon and compare the data on the coupon to data on the check. If they match, the check is processed. Items submitted to the lockbox are processed and funds are posted to the participant's account normally within two to three business days of receipt. Loan prepayments are invested according to the participant's TSP contribution percentage of shares at the time the loan is disbursed. The TSP sends the participant a confirmation whenever a partial or full payment has been made on a loan. Images of the check, payment coupon, and other correspondence are scanned into the TSP system and stored. Once the loan is closed, the applicable payroll office is notified.

Loan Refunds

A participant is entitled to a refund when his/her loan account has been overpaid by $10 or more. If the overpayment is less than $10, the amount is invested into the participant's account. The TSP system automatically identifies participant overpayments, and refunds are issued to participants daily via check.

Loan Delinquencies

On a quarterly basis, an automated loan default sweep is generated in the TSP system to identify participants who are behind more than two and a half payments on their loan. Participants identified receive a system generated notice of a pending taxable distribution. The notice instructs the participant to make the required principal and interest payments by the end of the following quarter or a taxable distribution will be declared. In the middle of the following quarter, participants receive an additional reminder of the pending taxable distribution.

If the appropriate amount is not posted to the loan account by the end of the quarter following when the participant was notified, a taxable distribution is declared, and the participant's loan is automatically closed in the TSP system as a result of default. Participants are automatically notified that their loan has been closed and a taxable distribution has been declared. The TSP will then record the balance as income, and the participant may no longer make payments on the loan. Subsequently, taxable distributions are documented on the Internal Revenue Service Form 1099 and submitted to the participant at the end of the calendar year for tax reporting. Taxable distributions are based on the unpaid outstanding loan balances (including interest accrued up to the day the notice is given) and are reported based on the funds that make up the participant's loan.

Participant Separations

When participants separate from Federal service, the TSP receives the separation code from the participant's agency or service via the TSP system. A notice is then automatically generated and sent to the participant, which states that the participant has been separated from his/her previous agency/service and must repay the loan in full within 95 days of the notice or receive a taxable distribution. Participants may then repay the loan balance, receive a taxable distribution, or submit documentation stating they are employed with another eligible agency or military branch. If a participant is in default status at the time of separation, the separation takes precedent over the default process, and the participant has 95 days to repay the loan. A participant may accelerate the 95 day notice by signing an Intent Not to Repay Statement, which is processed through the TSP Service Bureau, and results in the immediate declaration of a taxable distribution.

Non-Pay Status

Participants on non-military leave are allowed to suspend payments in non-pay status for up to one year. If a participant is in approved non-pay status (based on the participant's status with his/her respective agency or service) for one year or more (unless related to military service), the participant is responsible for making loan payments from his/her personal funds to avoid being in default. When a participant returns from non-pay, his/her loan is re-amortized automatically in the TSP system, and the participant is required to begin making payments based on the new amortization schedule. The TSP system is configured to automatically re-amortize the participant's loan upon the earlier of return from non-pay status or one year after beginning non-pay status.

If the participant fails to make the required payments on the re-amortized loan, he/she is subject to the delinquency process discussed above. Participants that enter non-pay status to perform military service are permitted to suspend payments on their loans until they return to pay status. Interest continues to accrue automatically in the TSP system during the period the loan is outstanding, including during non-pay status. The maximum time limits for repayment are extended by the length of military service.

The primary method to document non-pay status is submission of the applicable TSP form by the employing agency or service; the form should include the intended start date of the non-pay status and the type of non-pay status (Military or Non-Military). If the agency/service does not submit the applicable TSP form, a Standard Form 50, *Notification of Personnel Action*, military orders, or a letter from the agency/service with all the required information is also accepted. Upon return from non-pay status, the aforementioned forms should be submitted by the participant's agency/service to indicate a return from non-pay status. Military participants are excluded from the quarterly default loan sweeps performed during approved non-pay status, and non-military participants are excluded from the sweeps during the first year of approved non-pay status.

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

7. Implementation of the Coronavirus Aid, Relief, and Economic Security Act

On March 28, 2020, H.R. 748, Public Law 116-136, the CARES Act, was enacted, which was intended to address the economic fallout from the COVID-19 pandemic in the United States. The CARES Act created special rules for TSP loans held by participants affected by COVID-19; specifically, the maximum amount a participant could borrow for a general-purpose loan increased and participants were able to suspend loan payments until December 31, 2020.

To be eligible to apply for either of these provisions, the participant must have met one or more of the following three criteria to be considered a "qualified individual."

I. The participant is or has been diagnosed with the virus SARS–CoV–2 or with coronavirus disease 2019 (COVID–19) by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act).
II. The participant's spouse or dependent (as defined in section 152 of the IRC of 1986) is or has been diagnosed with such virus or disease by such a test.
III. Due to COVID-19, the participant is experiencing adverse financial consequences as a result of the participant, the participant's spouse, or a member of the participant's household
   - being quarantined;
   - being furloughed or laid off or having work hours reduced;
   - being unable to work due to lack of childcare;
   - having to close or reduce hours of a business;
   - having a reduction in pay or self-employment income; or
   - having a job offer rescinded or a start date for a job delayed[6].

The maximum loan amount on a general-purpose loan for qualified individuals increased from $50,000 to $100,000, and the portion of the participant's available balance available to be borrowed increased from 50% to 100%. All other rules related to TSP loans still applied.

To apply for this provision, participants had to submit form TSP-20-C, *CARES Act Loan Application*, by September 22, 2020. The TSP treated CARES Act loans as a type of general-purpose loan, and the online loan application wizard was modified to take into account the new rules for CARES Act applications. The wizard's CARES Act modifications were removed once the deadline to apply passed. After CARES Act loans were issued, nothing else differentiates them from other general-purpose loans and therefore they are monitored with the rest of the population and go through the same processes explained above.

Qualified individuals were also able to suspend loan payments for calendar year 2020 without penalty. To apply for this provision, participants had to submit form TSP-46, *CARES Act Loan Suspension Request*, by November 30, 2020 in order to have at least one payment suspended.

[6] TSP Bulletin 20-3 CARES Act: Impact to Thrift Savings Plan Loans – UPDATE

8. TSP Loan Statistics

TSP loans have been disbursed since the inception of the loan program on January 1, 1988. Exhibit I-1 on the next page illustrates total loan dollars disbursed[redacted] during the last five calendar years. TSP loan disbursements decreased $113 million, or 2.76 percent, from calendar year 2019 to calendar year 2020.

Exhibit I-1

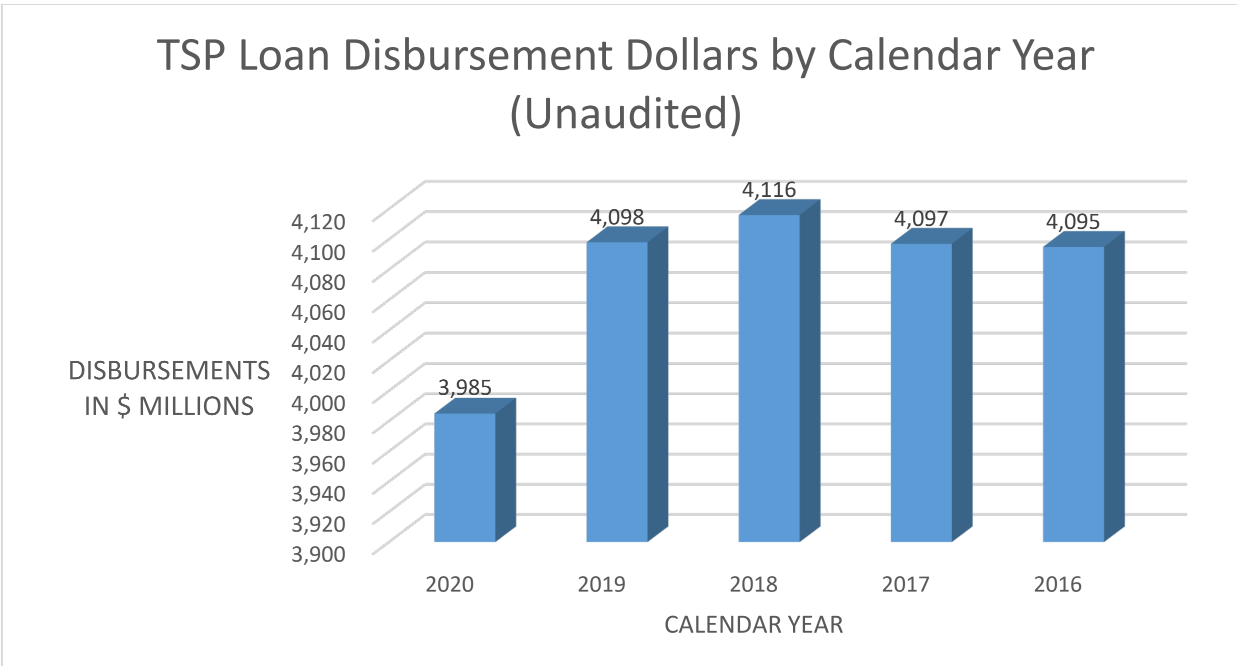


Exhibit I-2 below presents the number of loans disbursed during the last five calendar years[redacted]. The number of loans processed decreased by 34,827, or 13 percent, from calendar year 2019 to calendar year 2020.

[redacted]

Exhibit I-2

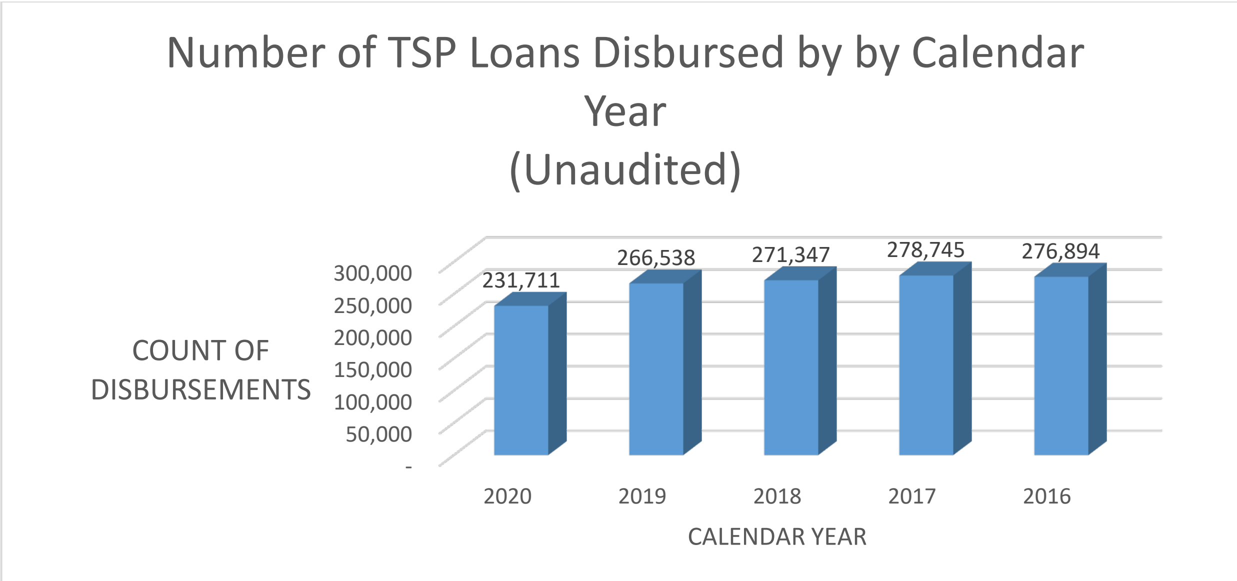
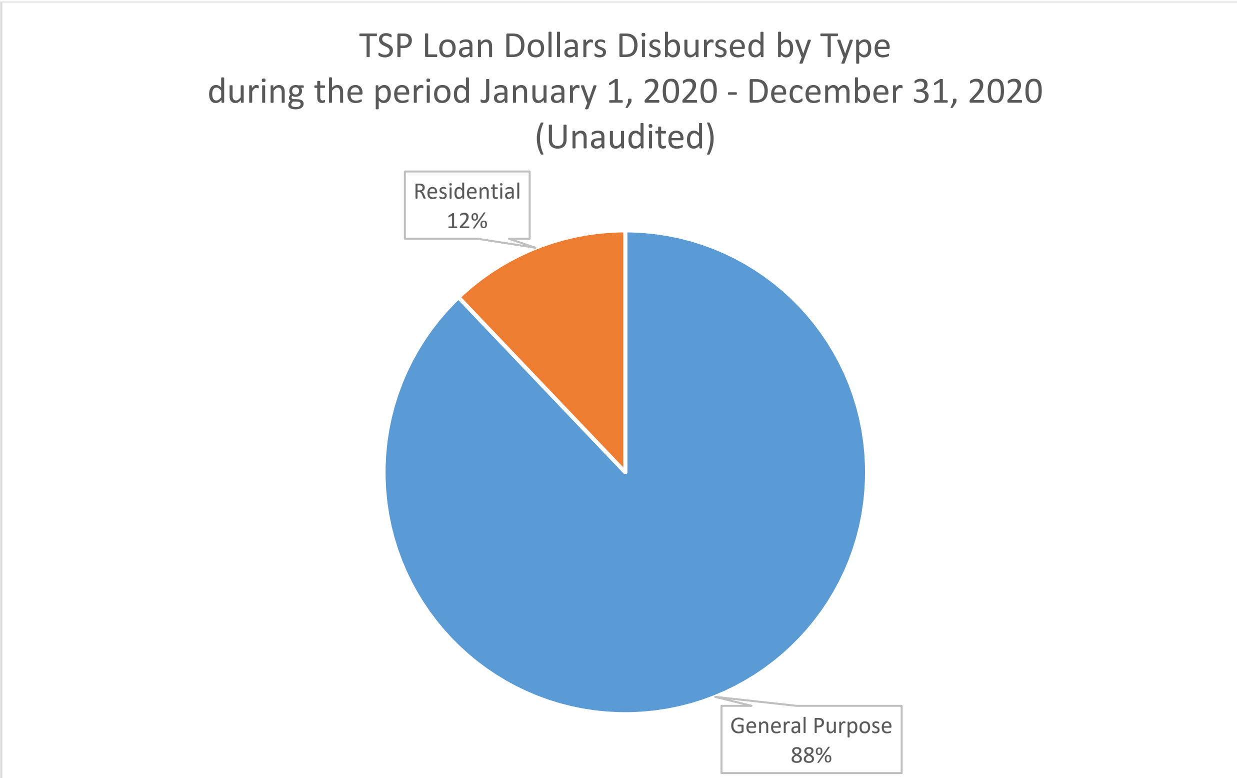


Exhibit I-3 below illustrates the percentage of loan dollars disbursed by loan type for calendar year 2020[8]. The higher percentage of the two loan types, in terms of both dollars and number, is for general purpose loans. In calendar year 2020, approximately $3.5 billion in general purpose loans were disbursed, which represented 88 percent of total loan disbursements. This percentage is consistent with the loan disbursements for calendar year 2019.

Exhibit I-3


TSP Loan Dollars Disbursed by Type
during the period January 1, 2020 - December 31, 2020
(Unaudited)
Residential
12%
General Purpose
88%

II. OBJECTIVE, SCOPE, AND METHODOLOGY

A. Objective

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

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

- Determine whether the Federal Retirement Thrift Investment Board's Staff (Agency) implemented certain procedures to (1) process TSP loan transactions promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (2) disburse TSP loans in accordance with regulations and participant authorizations; (3) limit participation in the TSP loan program to participants who meet eligibility criteria; and (4) accurately record loan activity in the TSP accounting records;

- Test compliance of the Agency's TSP loans process with 5 USC 8433(g) and 8435(e)(g) (hereinafter referred to as FERSA), 5 CFR 1655 (hereinafter referred to as applicable Agency regulations), and Public Law 116-136, *Coronavirus Aid, Relief, and Economic Security Act* (the CARES Act) ;

- Determine whether the Agency implemented certain procedures over changes to the loans process required by Public Law 116-136, the CARES Act (in response to the coronavirus pandemic); and

- Assess the status of all prior EBSA TSP open recommendations reported in *Performance Audit of the Thrift Savings Plan Loan Process*, dated June 7, 2018.

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, 2020 through December 31, 2020.

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 loans 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, and participated in process walkthroughs. Our audit procedures included selecting non-statistical samples from populations of loan transactions and TSP participants to achieve our audit objectives. Procedures performed included testing the following:

- Loans disbursed during the period of January 1, 2020 through December 31, 2020
- Loan payments received during the period of January 1, 2020 through December 31, 2020
- Participants to whom a second loan was disbursed while another loan was outstanding during the period of January 1, 2020 through December 31, 2020
- Loans paid in full during the period of January 1, 2020 through December 31, 2020
- Additional loan payments (prepayments) received during the period of January 1, 2020 through December 31, 2020
- Participants for whom a taxable distribution was declared during the period of January 1, 2020 through December 31, 2020
- Participants with loans who entered non-pay status during the period of January 1, 2020 through December 31, 2020
- Participants with loans which were approaching default during the period of January 1, 2020 through December 31, 2020
- Participants with loans who entered non-pay status during the period of January 1, 2019 through December 31, 2019 and who had been in non-pay status for more than one year during the period of January 1, 2020 through December 31, 2020
- Loans re-amortizations during the period of January 1, 2020 through December 31, 2020
- Daily loan disbursements reconciliations during the period of January 1, 2020 through December 31, 2020
- Daily outstanding loans reconciliations during the period of January 1, 2020 through December 31, 2020

- Monthly TSP [redacted] loan-related performance measures reviews during the period of January 1, 2020 through December 31, 2020
- System configuration of taxable distributions
- Quality control reviews of loan disbursements during the period of January 1, 2020 through December 31, 2020
- System configuration of amortization schedule
- System configuration of interest accrual
- TSP Website and TSP System edit checks
- Daily loan payments reconciliations during the period of January 1, 2020 through December 31, 2020
- Daily [redacted] during the period of January 1, 2020 through December 31, 2020
- System configuration of loan re-amortization

We conducted these test procedures remotely in coordination with personnel primarily from the Agency's headquarters in Washington, DC. Appendix B lists the key Agency documentation and reports we reviewed during our performance audit. Because we used non-statistically determined sample sizes in these instances, our results are applicable to the sample items we tested and were not extrapolated to the population.

Criteria used for this engagement is defined in the EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes the USC Title 5, Chapter 84, and CFR Title 5, 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) loans 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 January 1, 2020 through December 31, 2020. 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 January 1, 2020 through December 31, 2020, the Agency implemented certain procedures to (1) process TSP loan transactions promptly and accurately in individual participant accounts and in the appropriate investment fund(s); (2) disburse TSP loans in accordance with regulations and participant authorizations; (3) limit participation in the TSP loan program to participants who meet eligibility criteria; and (4) accurately record loan activity in the TSP accounting records. We also determined that the Agency implemented certain procedures over changes to the loans process required by Public Law 116-136, *Coronavirus Aid, Relief, and Economic Security Act* (the CARES Act) (in response to the coronavirus pandemic). As a result of our compliance testing, we did not identify any instances of noncompliance with applicable provisions of 5 USC 8433(g) and 8435(e)(g) (hereinafter referred to as FERSA), 5 CFR 1655 (hereinafter referred to as applicable Agency regulations) or the CARES Act. However, we noted internal control weaknesses in the TSP loans process.

We present two new findings and one new recommendation, presented in Section III.C, related to the TSP loans process, which address "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. This recommendation is intended to strengthen the TSP loans process. The Agency should review and consider this recommendation for timely implementation. The Agency's response to this recommendation is included as an appendix within this report (Appendix A).

We also reviewed three prior U.S. Department of Labor Employee Benefits Security Administration (EBSA) recommendations related to the TSP loans process to determine their current status. Section III.B documents the status of these prior recommendations. In summary, all three recommendations have been implemented and closed.

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

B. Findings and Recommendations from Prior Reports

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

<u>2016 TSP Loans Process Recommendation No. 1:</u>

<u>Title:</u>	[redacted] Monitoring Weaknesses
<u>Original Recommendation:</u>	The Agency should: b) Modify the contract with the [redacted] contractor to reflect a form processing time requirement consistent with the current internal benchmark (i.e., five business days).
<u>Reason for Recommendation:</u>	During our 2016 performance audit, we noted that the Agency's contract with the [redacted] contractor required that incoming documents be processed within two business days of receipt. In the [redacted] the Agency defined an internal benchmark of the acceptable percentage of forms processed within five business days in order to assess the contractor's form processing time metrics in the monthly performance reports; however, the Agency had not modified the terms of the contract to be consistent with the internal benchmark. As a result of our 2016 testing, we noted that the taxable distributions for [redacted] participants tested who had a taxable distribution declared during the scope period that was processed through a paper form submitted to the

TSP [redacted] were not processed within the contractually-required two business days of receipt. In addition, we noted that for one of these five participants, the taxable distribution was processed six business days after receipt of the Intent Not to Repay Statement, one day in excess of the internal benchmark and the timeframe identified in [redacted].

Status: **Implemented.**

b) During our current year performance audit, we noted that the Agency modified its contract with the [redacted], effective May 16, 2019, to update the form processing time to no later than five business days of initial receipt for 95 percent of all forms. In addition, we performed procedures over the timeliness of the [redacted] processing as part of our compliance testing over loan disbursements and our testwork over the quality control review of loan disbursements. We did not identify any exceptions as a result of our testing. We also performed testing over the [redacted] reports and noted that for all months selected for testing, the review and approval of the report was documented via email. As a result, this portion of the recommendation is closed.

Disposition: **Recommendation Closed.**

2016 TSP Loans Process Recommendation No. 3:

Title: Weakness in the Processing of Participants Returning from Military Non-Pay Status

Original Recommendation: The Agency should research the cause of the participant's loan not being properly reamortized or extended upon notification of return from non-pay

[redacted]

status and develop and implement appropriate corrective action to remediate the issue.

<u>Reason for Recommendation:</u> During our 2016 performance audit, we identified a control weakness over participants returning from military non-pay status. As a result of an accuracy test related to the Quarterly Default Sweep Reports, we identified [redacted] who should not have been included in these reports and ultimately had a taxable distribution declared in error based on 5 CFR 1620.45(a)(1). For this participant, the Agency received a Form TSP-41 in April 2016 indicating that the participant had returned from military non-pay status in October 2014, from which point the participant was current on loan payments. However, the participant's loan was not properly reamortized or extended when the Form TSP-41 was received by the Agency. As a result, the Agency incorrectly identified the participant as delinquent in the June 30, 2016 Quarterly Default Sweep Report, and subsequently declared a taxable distribution in error on September 30, 2016. The taxable distribution was reversed after the participant alerted the Agency to the error.

<u>Status:</u> **Implemented.**
As part of our current year audit procedures, we inspected the closure package provided, which includes updated procedures for a new monthly review to identify loans that were not systematically reamortized when the participant returned from military nonpay status. This monthly review was performed using a new report, [redacted] which we inspected and noted that the Agency further investigated and resolved the flagged participants, as necessary. In addition, we performed testing over reamortizations and returns from non-pay status and did not identify any exceptions.

<u>Disposition:</u> **Recommendation Closed.**

2018 TSP Loans Process Recommendation No. 1:

Title:	Spousal Consent Verification Process Weakness
Original Recommendation:	In conjunction with Withdrawals recommendation no. 2017-02a, the Agency should develop, document, and implement policies and procedures to verify that the spousal section of applicable loans application forms is properly completed for all married participants prior to processing loan disbursements.
Reason for Recommendation:	During our 2018 audit procedures, we noted that the Agency's processing of loan disbursements relied upon participants to self-report their marital status on their loan applications. The Agency had not developed a control to assess the accuracy of this self-reporting using marital status data in the TSP system, when available, to mitigate the risk that spousal consent to the loan is not obtained before a loan agreement is approved for a married Federal Employees' Retirement System (FERS) or uniformed services participant, as required by 5 CFR 1655.18(b). The Agency's loan disbursement process is similar to its withdrawals process. During the 2017 Withdrawals Process performance audit, the Agency informed us that marital status data for participants was not consistently maintained because of difficulties obtaining current data on participants' marital status from the relevant federal agencies and uniformed services. Therefore, the Agency relied upon participants to self-report their marital status prior to processing withdrawals requests that required spousal consent. As a result, we reported Withdrawals recommendation no. 2017-02, *Ineffective Spousal Consent Edit Checks*, in the report *Performance Audit of the Thrift Savings Plan Withdrawals Process,* dated January 18, 2018.
Status:	**Implemented.** As part of our current year audit procedures, we inspected the closure package provided and the EBSA Performance Audit Report, "Performance Audit of the Thrift Savings Plan Withdrawals Process," dated September 10, 2020. We noted that recommendation 2017-02 was closed

in the 2020 Withdrawals Performance Audit Report. Although the Agency did not implement procedures to obtain information on participants' current marital status and any subsequent changes to that status, FRTIB's policies and procedures define how a participant's marital status is verified in accordance with the CFR. In addition, marital status is not included in the listing of information employing agencies must provide according to TSP bulletin 05-13. Further, the TSP has no authority to require collection of a participant's marital status by a participant's Agency or Service. In addition, we performed testwork over loan disbursements and specifically reviewed if married participants obtained spousal consent or notification, as applicable. We noted no exceptions.

Disposition: **Recommendation Closed.**

C. 2021 Findings and Recommendation

While conducting our performance audit over the TSP loans process, we identified two new findings and developed a related recommendation. EBSA requests appropriate and timely action for the recommendation.

OTHER CONTROL FINDING AND RECOMMENDATION

2021-01: Incomplete and Inaccurate Review of Outstanding Loans Reconciliation

During our current year audit procedures, we tested a sample of [redacted] daily outstanding loans reconciliations and noted a deficiency in the peer review of the reconciliation. As a result, we identified [redacted] reconciliations tested had exceptions. Specifically, we noted one reconciliation for which there was no evidence of peer review, and one reconciliation that had a reconciling item that was calculated incorrectly but was not identified and corrected through the peer review. Although the reconciliations had exceptions, all loans identified within the reconciliations were recorded timely and accurately.

The exceptions occurred because the Agency did not have sufficient monitoring controls in place to identify and correct deficiencies in the peer review of the daily outstanding loans reconciliation.

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.

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.

1. The Agency should ensure that sufficient monitoring controls are in place to identify and correct deficiencies in the peer review of the daily outstanding loans reconciliation.

Without sufficient controls in place to ensure that the daily outstanding loans reconciliation is sufficiently reviewed, an increased risk exists that outstanding loans are incomplete, do not exist, or are inaccurate.

OTHER CONTROL FINDING WITHOUT A RECOMMENDATION

During our current year audit procedures, we tested a sample of [redacted] participants with missed loan payments, and a sample of [redacted] participants who were in non-pay status and had outstanding loans during our scope period. While testing these [redacted] samples, we identified three instances in which participants' TSP-41, "Notification to TSP of Nonpay Status," was submitted to the Agency, on average, eight months after participants entered non-pay status with their employing agency (i.e., non-pay effective date). In addition, we noted that for [redacted] instances, the participant was able to obtain a TSP loan while they were in non-pay status because the employing agency did not submit the TSP-41 timely.

This matter occurred because the Agency depends on the participants and their employing agencies to submit the TSP-41 timely. Because the employing agencies noted above did not submit the TSP-41 timely, the [redacted] participants who obtained loans were still in "active" status at the time the loans were issued, according to TSP records. We did note that the Agency timely processed the TSP-41 once it was received, and we did not identify any instances in which the Agency did not comply with the related policies and procedures. Therefore, we did not consider a recommendation necessary related to this finding.

D. Summary of Open Recommendations

2021 RECOMMENDATION

RECOMMENDATION TO ADDRESS OTHER CONTROLS

Incomplete and Inaccurate Review of Outstanding Loans Reconciliation

1. The Agency should ensure that sufficient monitoring controls are in place to identify and correct deficiencies in the peer review of the daily outstanding loans reconciliation.

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

July 20, 2021

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 June 28, 2021, transmitting the KPMG LLP draft report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Loans Process dated June 2021. 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

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

FUNDAMENTAL CONTROL FINDINGS AND RECOMMENDATIONS

2021 Loans Recommendation No. 1:

2021-01: Incomplete and Inaccurate Review of Outstanding Loans Reconciliation

Recommendation:

The Agency should ensure that sufficient monitoring controls are in place to identify and correct deficiencies in the peer review of the daily outstanding loans reconciliation.

Agency Response:

The Agency concurs with the recommendation. [redacted] includes language requiring the Accountants to review the daily general ledger loan reconciliation and for the reconciliation to be peer reviewed. OCFO will complete training for the Accountants to ensure the reconciliation processes are fully understood and ensure the peer review is documented. The training will be completed by September 30, 2021.

KEY DOCUMENTATION AND REPORTS REVIEWED

<u>Federal Retirement Thrift Investment Board Documents</u>

- TSP Fact Sheet, *Effect of NonPay Status on TSP Participation*, dated February 2020
- TSP website

[redacted]

- TSP-20, *Loan Application*
- TSP-20-C, *CARES Act Loan Application*
- TSP-21-R-CL, *Residential Loan Checklist*
- TSP-21-G and TSP-21-R, *Loan Agreement*
- TSP-41, *Notification of TSP Non-pay Status*
- TSP-46, *CARES Act Loan Suspension Request*

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

- Form 1099-R, *Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*
- *Loan Re-amortization Confirmation Notice*
- *Pending Taxable Distribution Notice*
- *5118 Term Limit Notice*
- *Loan Taxable Distribution Notice*
- *Loan Taxable Distribution Reminder*
- *Loan Paid in Full Notice*
- *Nonpay Confirmation Notice*
- Taxable Distributions general ledger account detail for the period January 1, 2020 through December 31, 2020
- G Fund Contributions general ledger account detail for the period January 1, 2020 through December 31, 2020
- Loan Administrative Fees general ledger account detail for the period January 1, 2020 through December 31, 2020
- Loan Receivable general ledger account detail for the period January 1, 2020 through December 31, 2020
- Loan Payments general ledger account detail for the period January 1, 2020 through December 31, 2020
- Loan Disbursements general ledger account detail for the period January 1, 2020 through December 31, 2020
- Electronic listing of all outstanding loans (general purpose and residential) during the period January 1, 2020 through December 31, 2020
- Electronic listing of all loans disbursed during the period January 1, 2020 through December 31, 2020
- Electronic listing of taxable distributions declared during the period January 1, 2020 through December 31, 2020
- Electronic listing of all loan re-amortizations during the period January 1, 2020 through December 31, 2020
- Electronic listing of all loans with additional payments (prepayments) during the period January 1, 2020 through December 31, 2020
- Electronic listing of all participants who entered non-pay status while having an outstanding loan during the period January 1, 2020 through December 31, 2020

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

- Electronic listing of all participants who entered non-pay status while having an outstanding loan during the period January 1, 2019 through December 31, 2019 and who had been in non-pay status for more than one year during the period of January 1, 2020 through December 31, 2020
- Quarterly Loan Default Sweeps during the period January 1, 2020 through December 31, 2020
- Daily Federal Reserve Board (FRB) Reconciliation Reports for selected dates during the period January 1, 2020 through December 31, 2020

[redacted]

- Daily [redacted] to [redacted] reconciliations for selected dates during the period January 1, 2020 through December 31, 2020
- [redacted] for selected dates during the period January 1, 2020 through December 31, 2020
- [redacted] for selected dates during the period January 1, 2020 through December 31, 2020

[redacted]

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

Other Documents and Reports

- [redacted]
- [redacted]