Employee Benefits Security Administration

Performance Audit of the Thrift Savings Plan Withdrawals Process

September 20, 2016

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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 from December 4, 2015 through August 12, 2016, primarily at the Federal Retirement Thrift Investment Board Staff's (Agency) headquarters in Washington, DC. Our scope period for testing was January 1, 2014, through June 30, 2015.

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

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

- Determine whether the Agency implemented certain procedures to (1) process TSP withdrawal transactions promptly and accurately in individual participant accounts, (2) process withdrawal and death benefit payments in accordance with regulations and participant authorization, and (3) accurately record withdrawal activity in the TSP accounting records;

- Test compliance of the TSP withdrawal process in accordance with 5 USC Sections 8424(d), 8433, 8434(a)(1), 8435(c), and 8440 (hereinafter referred to as FERSA), and 5 CFR 1650, 1651.19, and 1653 (hereinafter referred to as Agency Regulations); and

- Determine the status of the prior EBSA TSP open recommendations reported in *Performance Audit of the Thrift Savings Plan Withdrawals Process as of November 9, 2011*.

We present two new recommendations related to controls over the TSP withdrawal process, one addressing fundamental controls and one addressing other controls. Fundamental control recommendations address significant procedures or processes that have been designed and operate to reduce the risk that material intentional or unintentional processing errors could occur without timely detection or that assets are inadequately safeguarded against loss. Other control recommendations address procedures or processes that are less significant than fundamental controls. All recommendations are intended to strengthen the TSP withdrawal process. The Agency should review and consider these recommendations for timely implementation. Section III.C presents the details that support the current year findings and recommendations.

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We conclude that for the period January 1, 2014 through June 30, 2015, the Agency implemented certain procedures to (1) process TSP withdrawal transactions promptly and accurately in individual participant accounts, (2) process withdrawal and death benefit payments in accordance with regulations and participant authorization, and (3) accurately record withdrawal activity in the TSP accounting records. However, as indicated above, 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, or Agency regulations except for an instance of noncompliance with certain elements of 5 CFR 1653, which describes the requirements for calculating a payee's entitlement for court order awards.

We also reviewed five prior EBSA recommendations related to the TSP withdrawals process to determine their current status. These prior year recommendations were reported in the *Performance Audit of the Thrift Savings Plan Withdrawals Process, November 9, 2011*. Section III.B documents the status of these prior recommendations. In summary, two recommendations have been implemented and closed, one recommendation has not been implemented but was closed, one recommendation has been partially implemented but was closed and reissued under a new recommendation, and one recommendation has been partially implemented and remains open.

During our performance audit, we also reviewed the report, *Internal Audit of the Manual Thrift Savings Plan Transaction Process* dated July 30, 2015, issued by the Agency's Internal Audit Division that contained certain findings and recommendations relevant to our audit objectives. We considered these findings and recommendations in the planning and performance of our audit work.

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

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

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

KPMG LLP

September 20, 2016

I. BACKGROUND OF THE WITHDRAWALS PROCESS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement Systems Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is a 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 April 1, 1987, and as of June 30, 2015 had approximately $455 billion in assets and approximately 4.7 million participants[1].

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

B. TSP Withdrawal Requirements

Eligibility to Remain in the TSP [2]

If a separated participant's vested account balance is $200 or more, the participant can opt to leave the entire 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. However, the participant cannot borrow from the account. Additionally, while contributions are no longer accepted, the separated participant can transfer funds into the TSP from an Individual Retirement Account (IRA) (i.e., a traditional or Roth IRA) or an eligible employer plan. The funds are distributed among the TSP investment funds according to the participant's most recent contribution allocation request on file. Separated participants are required to make a withdrawal election in the year following the attainment of age 70 ½.

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[1] Source: Minutes of the July 2015 Federal Retirement Thrift Investment Board Meeting, posted on www.frtib.gov

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

TSP Post-Separation Withdrawals[2]

When participants separate from Federal service, they are eligible to withdraw their vested account balance from the TSP. A FERS participant must work for the Federal Government a certain number of years (typically 3 years – 2 years for congressional and certain non-career positions) to become entitled to or "vested in" the Agency Automatic (1%) contributions and the related earnings. Separated participants forfeit non-vested amounts to the TSP. FERS participants are always vested in their own contributions, agency matching contributions, and the related earnings on those contributions. If a participant dies before leaving Federal service, the entire TSP account is vested automatically. Civil Service Retirement System (CSRS) and uniformed services participants are always vested in all the money in their accounts.

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

<u>Automatic Cash-out</u>[3]

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 lump sum payment. The TSP system is configured to identify separated participants' accounts whose vested balance is less than $200 but more than $4.99, and initiate payment to the participant. No notification is made prior to the disbursement and completion of the Form TSP-70, *Request for Full Withdrawal*, is not required. The account balance is paid automatically after the "separated" employment code is received from the 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 abandoned balance.

[3] Source: *Withdrawing Your TSP Account After Leaving Federal Service*, March 2014.

Partial Withdrawal[3]

Separated participants have the option of taking a one-time only withdrawal for a portion of their TSP accounts while leaving the remainder in the TSP until a later date. However, if a participant received an age-based in-service withdrawal, the participant is not eligible for a partial withdrawal. Additionally, the participant must not have received a partial withdrawal from a prior period of employment.

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 full withdrawal. The withdrawal is deducted from the participant's account proportionally from each contribution source, as applicable, (i.e., employee traditional or Roth, agency automatic 1 percent, and agency matching) and each investment fund in which the participant is invested at the time of disbursement. The partial payment is subject to the 20 percent tax withholding; however, it is 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 Internal Revenue Service (IRS) rules) unless the participant has required minimum distribution (RMD) amounts ineligible for rollover. Transfer requests must be completed and certified by the financial administrator of the plan/IRA and mailed to the TSP.

A partial payment is requested through the completion of the Form TSP-77, *Request for Partial Withdrawal When Separated*. The completed form can be mailed or faxed to the TSP in Birmingham, AL or initiated, and in some cases completed, via the TSP website. For married FERS or uniformed services participants, spousal consent is required regardless of the account balance or the amount of withdrawal; the participant's spouse must sign the form, and the spousal signature must be notarized prior to submission to the TSP. 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. In both cases, a Form TSP-16, *Exception to Spousal Requirements*, must be completed. 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, in which case a Form TSP-16 must be completed. Participants must also provide appropriate documentation to support the exception when they submit the TSP-16. If the Agency approves the exception, the withdrawal is processed.

If the participant has two separate TSP accounts as a Federal civilian employee and as a member of the uniformed services, the participant can make a partial post-separation withdrawal only from the account associated with the participant's separation. If both accounts are associated with the participant's separation, a partial post-separation withdrawal can be made from each account.

Full Withdrawal[4]

Participants can have their entire account balance paid in a single payment, monthly payments, a life annuity or any combination of these options. A full withdrawal can be requested through submission of a Form TSP-70; only certain sections of the form are required to be completed based on the participant's withdrawal elections and account balance.

- Single Payment – Participants can withdraw their entire account balance in a single payment. Alternatively, the participant can request a transfer of all or any percentage of the single payment to an IRA or other eligible employer plan. The taxable portion of a single payment percentage not transferred is subject to the mandatory 20 percent Federal income tax withholding. In addition, tax deferred RMD amounts ineligible for rollover are subject to a 10% tax withholding and cannot be transferred.
- Series of Monthly Payments – Participants can withdraw their entire account balance or a percentage of their account balance in a series of substantially equal monthly payments. The participant can choose one of two monthly payment options:

    - Monthly payments computed by the TSP based on 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 monthly payments each year based on the account balance at the end of the preceding year and the participant's age. The monthly payments are subject to income tax withholding per IRS rules. Monthly payments based on life expectancy cannot be transferred to an IRA or eligible employer plan.
    - A specific dollar amount where the participant receives payments in the amount requested until the entire balance has been paid. The amount of monthly payments must be $25 or more. If the payments are expected to last less than 10 years, the payments are subject to the mandatory 20 percent Federal tax withholding; however, the participant may request that all or a portion of the payments be transferred to an IRA or other eligible employer plan, as allowed under IRS rules. If the payments are expected to last 10 or more years, they are subject to income

[4] Source: *Withdrawing Your TSP Account After Leaving Federal Service*, March 2014.

tax withholding per IRS rules, and the payments cannot be transferred to an IRA or qualified plan.

For both monthly payment options, the participant can complete Form TSP-73, *Change in Monthly Payments*, TSP-78, *Monthly Payments Maintenance*, or TSP-79, *Change from Monthly Payments to Final Payments*, to:

- Change to a final single payment (the final payment can be sent directly to the participant or the participant may elect to transfer all or a portion of the final single payment to an IRA or other eligible employer plan);
- Begin transferring eligible monthly payments or change the portion of each monthly payment that is transferred to an IRA or other eligible employer plan;
- Select a different IRA or other eligible employer plan;
- Begin direct deposit of the portion currently sent to them via check, or stop direct deposits and begin receiving checks; or
- Choose a different financial institution, checking account, or savings account that is currently receiving the monthly payments.

For both monthly payment options, the participant can also complete Form TSP-73 to request an annual change to the dollar amount of his/her monthly payment or a one-time change during the life of the account from the IRS life expectancy payments to a specified dollar amount. The request for these changes must be received by the TSP by December 15 each year to be effective, with the first payment received in January of the subsequent year. A participant does not have the option to change from a specified dollar amount to IRS life expectancy payments. If a participant makes a change to his/her monthly dollar amount, the TSP must determine whether the change results in the participant receiving fewer than 120 payments. If so, the monthly payments will be categorized as eligible rollover distributions and will be treated the same way as a final single payment for federal income tax purposes. If the change results in 120 payments or more, the monthly payments will be treated as "periodic payments" and the tax withholdings will be based on IRS withholding requirements for a person who is married with three dependents. Participants can elect to change their withholding amount through Form TSP-78 or IRS Form W-4P, *Withholding Certificate for Pension or Annuity Payments*.

- Life Annuity – Participants can withdraw their entire account balance or a percentage of their account balance (mixed withdrawal) to purchase a life annuity. To be eligible, the participant's vested balance must be at least $3,500, or the portion of the account balance applied to the annuity option must equal 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, which is currently Metropolitan Life Insurance Company (Metropolitan Life). The three general types of annuity options are Single Life Annuity, Joint Life with Spouse Annuity, and Joint Life with Other Survivor Annuity.

- Mixed withdrawal – Participants also have the option of selecting a mixed withdrawal in which the participant can withdrawal their entire account balance using a combination of any two or all three of the available full withdrawal options (single payment, monthly payments, and life annuity).

For married FERS, CSRS, and uniformed service participants requesting full withdrawals, including mixed 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 full 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 his/her right by signing the Form TSP-70, and the spousal signature must be notarized. For a married CSRS participant with an account balance exceeding $3,500 electing a full withdrawal, the TSP must notify the participant's spouse of the withdrawal election. The TSP places these CSRS disbursements on a two day hold to allow for spousal notification. The spousal exceptions are the same as noted above in the Partial Withdrawal section.

Required Minimum Distributions[5]

The Internal Revenue Code (IRC) requires that participants receive a portion of their TSP account beginning the calendar year they become age 70 ½ and are separated from service. This year is called the participant's first distribution year. Thus, if the participant separates after age 70 ½, his/her account is immediately subject to the IRC minimum distribution requirements. 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 make the required distribution to the participant by April 1 of the following year (i.e., the second distribution year). The minimum distribution payment cannot be transferred or rolled over. The TSP system calculates the minimum distribution based on the participant's account balance from the prior year's end balance and age using the IRS Uniform Lifetime Table. If the participant does not withdraw or begin withdrawing his/her account by April 1 of the second

[5] Source: *Withdrawing Your TSP Account After Leaving Federal Service*, March 2014.

distribution year, his/her account will be forfeited to the TSP (although the RMD for the prior year is sent to the participant's last address of record). Participants have the ability to reclaim any amounts forfeited by using Form TSP-70A, *Late Request for Full Withdrawal*.

Death Benefits[6]

Designation of a beneficiary or beneficiaries can be made by the participant on the Form TSP-3, *Designation of Beneficiary*, and is valid only for the TSP account. The TSP maintains the most recent Form TSP-3 for all participants. The Form TSP-3 is not effective unless it is on file with the TSP on or before the date of the participant's death. A will is not valid for the disposition of a participant's TSP account.

If a participant has no Form TSP-3 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.

Beneficiaries must submit a completed Form TSP-17, *Information Relating to Deceased Participant*, and a copy of the certified death certificate to the TSP before the TSP will begin processing the death benefit payment.

For participants who die while still actively employed in Federal service, the TSP verifies that the participant's personnel or payroll office has submitted the employment code indicating the participant's death before processing the death benefit request. For all deceased participants (regardless of whether they died in service or after separation from service), the TSP verifies that the participant's account has not already been paid based on any type of previous withdrawal request and that no outstanding court order exists that affects disbursement of the participant's TSP account prior to processing the death benefit request.

[6] Source: *Withdrawing Your TSP Account After Leaving Federal Service*, March 2014; and *Thrift Savings Plan Death* Benefits, August 2014 (Bulletin 14-U-3).

In December 2010, the TSP began establishing beneficiary participant accounts for the spouses of deceased participants. If a spouse's share of death benefits is $200 or more, the TSP establishes and maintains a beneficiary participant account for the spouse. The entire share is invested in the Government Securities Investment (G) Fund until the spouse elects a different investment option or chooses to withdraw the money as a single payment, monthly payments, annuity, or a combination of these options. If the spouse's share is less than $200, the TSP sends a check for the payment. Public Law 113-255, which was signed into law on December 18, 2014, changed the default investment fund for newly enrolled civilian TSP participants and beneficiary participants' from the G Fund to an age-appropriate Lifecycle Fund[7]. However, this change was not effective until September 5, 2015.

Spouse beneficiary participants can leave their money with the TSP or withdraw it at any time. To withdraw their accounts, they must submit a Form TSP-90, *Withdrawal Request for Beneficiary Participants*. Beneficiary participants can make a partial withdrawal of at least $1,000, or a full withdrawal that can be in the form of a single payment, a series of monthly payments, or a life annuity. Beneficiary participants are also subject to RMDs (see the RMDs section above for details).

Death benefit payments for non-spouse beneficiaries are usually made 60 days after the TSP has received all of the information required. The taxable portion of death benefit payments paid to non-spousal beneficiaries are subject to federal income tax withholding per IRS rules.

Court Orders[8]

The TSP must honor a valid court order that awards all or part of a TSP account to a current or former spouse. The TSP must also honor a valid legal process that enforces obligations to pay child support or alimony or to satisfy judgments for child abuse. With the exception of a minimum distribution, a participant's withdrawal is not processed until the court order is settled.

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 order or process requires it because it is not considered a qualifying legal process under FERSA. Additionally, the TSP will not make a payment if the participant's account balance is insufficient at the time of payment for the TSP

[7] Source: https://www.tsp.gov/PDF/bulletins/15-02.html, TSP Bulletin 15-02

[8] Source: *Withdrawing Your TSP Account After Leaving Federal Service*, March 2014; and *Court Orders and Powers of* Attorney, September 2014.

to satisfy the payee's entire entitlement. However, the TSP will honor a second court order. 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. However, the payment may not exceed the participant's total vested account balance. All or part of a payment to a current or former spouse under a court order or a legal process may be transferred to an IRA or an eligible employer plan. Special additional rules may apply for uniformed services accounts.

TSP In-Service Withdrawals

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 full 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. See below for additional details on the in-service withdrawals.

<u>Age-Based In-Service Withdrawals</u>
Age-based in-service withdrawals allow participants who are age 59 ½ or older to request a one-time withdrawal of 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' accounts proportionally from each contribution source and investment fund in which the participants are invested at the time of disbursement. Participants can only receive one age-based in-service withdrawal from an account. 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 an age-based in-service withdrawal only from the account associated with the participant's current employment. If both participant accounts are active (e.g., a Federal civilian employee and member of the Ready Reserve), an age-based in-service withdrawal can be made from each account.

Participants who make an age-based in-service withdrawal cannot subsequently receive a post-separation partial withdrawal. The in-service withdrawal cannot be repaid to the TSP and is subject to the 20 percent Federal withholding tax. It is an eligible rollover distribution; thus, the participant can transfer all or a portion of the withdrawal to an IRA or other eligible employer plan. To request an age-based in-service withdrawal, participants must complete the Form TSP-75, *Age-Based In-Service Withdrawal Request*. As previously noted with the post-separation partial withdrawals, the TSP has spousal consent and notification requirements. For married FERS or uniformed services participants, the spouse must consent to the withdrawal, and the spouse's signature must be notarized. If the spouse's whereabouts are unknown or exceptional circumstances exist that make it inappropriate to obtain spousal consent, the participant must complete Form TSP-16 and provide the required documentation. For married CSRS participants, the TSP must notify the participant's spouse before the in-service withdrawal is made. The only exception to this requirement is if the participant does not know the whereabouts of his/her spouse, in which case completion of Form TSP-16 is necessary.

Additionally, for those participants requesting a transfer of their age-based in-service withdrawal to an eligible employer plan or an IRA, the Form TSP-75 must be completed and certified by the financial administrator of the plan or IRA and mailed to the TSP.

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 financial need. Financial hardship withdrawals must be a minimum of $1,000. The withdrawal is deducted proportionally from each investment fund according to the employee contributions in that investment fund at the time of disbursement.

To be eligible for a financial hardship withdrawal, participants must have a financial need that results from at least one of the following four conditions: negative monthly cash flow, eligible medical expenses (including household improvements needed for medical care), eligible personal casualty losses, or eligible legal expenses for separation or divorce from a spouse. Participants cannot request a financial hardship withdrawal because of negative cash flow while under Chapter 13 bankruptcy. However, participants can request a financial hardship withdrawal for medical, personal casualty loss, or legal divorce fee expenses while under Chapter 13 bankruptcy. 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.

To request a financial hardship in-service withdrawal, the participant must complete a Form TSP-76, *Financial Hardship In-Service Withdrawal Request*. For married FERS and uniformed services participants, spousal consent (with notarized signature) 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. 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 unless the participant submits a completed IRS Form W-4P, with the application. 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.

After a financial hardship withdrawal disbursement has been made, participants cannot make contributions to the TSP or take another financial hardship withdrawal for a period of six months. Although FERS employees do not receive any agency matching contributions during this six-month period, those FERS employees in pay status do continue to receive their agency automatic one percent contributions. When the financial hardship is processed, the TSP sends the participants a notice that identifies when the participants can resume making contributions to the TSP. Additionally, at the end of the six-month period, the TSP notifies the participants of their eligibility to resume contributions. The participants must submit a request to their Agency to resume contributions by submitting Form TSP-1, *Election Form*, along with a copy of the notice that the TSP has sent, as contributions will not resume automatically. 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.

C. TSP Withdrawals Process

Paper Withdrawal Requests

Withdrawal processing for paper forms begins in the service providers' facilities either in Birmingham, AL or Fair Oaks, VA where the mailroom receives withdrawal forms submitted by participants. Withdrawal forms for death benefits and court orders are processed in Fair Oaks, VA while all other withdrawal forms are processed in Birmingham, AL. All forms receive a barcode to indicate the type of withdrawal form it is and are then scanned into EXP AG[9]. Forms are then

[9] EXP AG is the Agency's document imaging system.

sent to one of the service provider's teams to be indexed so each one can be linked to the relevant participant's account. During indexing, EXP AG performs edit checks on the participant's name and account ID to verify they match a valid account in the TSP system and ensure that a duplicate form is not already in process.

Once the form is indexed, its information is entered into DocXP. This stand-alone system is linked to EXP AG and is designed to perform edit checks to ensure invalid data is not entered. If the forms are found to contain errors, an error message is displayed on the screen so that the data entry clerk can determine the necessary next steps to resolve the error. EXP AG rejects a form that contains errors and produces a reject notice that is mailed to the participant. If the forms are determined to be free of data entry error, the form is then transmitted to the TSP system via the nightly unified processing cycle. During the nightly unified processing cycle, the TSP system performs additional edit checks to verify the requirements for each type of withdrawal are met. Once the form passes the edit checks within the TSP system, a confirmation letter is sent to the participant, denoting the processing of the withdrawal request and related information. If the form does not pass the edits check in the nightly unified cycle the system produces a reject notice that is mailed to the participant.

Electronic Withdrawal Requests

Participants can, in some cases, complete withdrawals via the TSP website (e.g., CSRS participants or unmarried FERS participants not electing transfers to an eligible employer plan or traditional IRA). The website interface also performs various edit checks on the data entered by the participants. If the withdrawal form is submitted successfully via the TSP website, it is then sent to the TSP system for further processing via the nightly unified processing cycle. The website interface also forwards a copy of the completed form to EXP AG for record retention. All withdrawals for married CSRS participants are sent to the TSP system marked with a two-day hold to allow time for spousal notification. Participants whose withdrawals were approved on-line can print out their completed forms from the TSP website. However, the majority of withdrawal requests are not available to participants to submit via the TSP website. As such, participants who are not eligible to complete their withdrawal forms on-line must print, complete, and mail them to the contractor in Birmingham, AL.

Withdrawal Disbursement and Reporting

If a post-separation withdrawal form is submitted to the TSP and scanned, indexed, and data-entered into EXP AG, but the separation information has not been received from the Federal agency or uniformed service (e.g., employment code and date indicating separation), EXP AG automatically holds the form in a suspense file for 30 days pending receipt of the separation information. If the separation information is not received within the 30 days, the form is rejected, and a reject notice is sent to the participant, who must contact his/her agency or service to follow-up. If the separation information is received within the 30 days and no errors are identified on the form, the withdrawal is processed.

The Agency's Accounting Division, which is part of the Office of the Chief Financial Officer, is responsible for preparing general ledger information. Withdrawals that were processed during the nightly unified process within the TSP system are extracted and interfaced with OmniPay, the TSP's payment processing system, to transfer disbursement data to the U.S. Department of the Treasury (Treasury) via the SF-1166, *Voucher and Schedule of Payments*. OmniPay produces the SF-1166 on a daily basis for transmission to Treasury. Key data elements passed to Treasury include the payee's name, address, and social security number; amount of disbursement; type of disbursement; and form of disbursement (e.g., check or electronic funds transfer (EFT)). Upon receipt, Treasury will edit the file and email the Agency a report for certification for the disbursement. An accountant reconciles the number and dollar value of transactions in the report sent from Treasury to verify the accuracy. Once the accuracy is confirmed, the accountant will enter the data in the Treasury Secure Payment System (SPS). Once the data is entered, an accountant, with the certifying officer role in SPS, will review the SF-1166, email from Treasury and SPS data before certifying the withdrawals for payment by Treasury.

Upon verification, Treasury releases the batch of disbursements for processing. Treasury typically processes disbursements within approximately one to five business days of having received the complete disbursement information from the TSP. If the disbursement are be made by check, Treasury usually needs additional time for disbursement. After Treasury disburses funds, Treasury sends payment accomplishment information to the accounting division via the Government On-Line Accounting Link Information Access System (GOALS IAS). An accountant performs a daily manual reconciliation between the Treasury disbursement report from GOALS IAS and TSP system summary reports to ensure completeness and accuracy of the disbursed funds.

The Accounting Division uses financial reports generated by the various TSP systems, to prepare general ledger entries for withdrawal activity.

On a daily basis, an accountant will generate withdrawals disbursement reports from the TSP system, which is used to input numbers into a journal entry template for posting to the general ledger. Once the template is completed, the accountant will upload it into the general ledger to create a provisional (preliminary) posting. Once the provisional posting is created, an accountant other than the preparer, will review the TSP reports and the journal entry created for accuracy before releasing the entry to post 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, or legal separation or a 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 calls such a document 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.

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 the vested account balance.

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.

<u>Additional Information on the Required Minimum Distributions Process</u>

As previously discussed, the IRC requires that participants receive a portion of their TSP account beginning the calendar year the participant becomes age 70 ½ and is separated from service (i.e., the first distribution year). If the participant does not withdraw his/her account balance or begin receiving payments from his/her 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 leaflet every fall to all participants turning 70 ½ (both active and separated) in the subsequent calendar year, notifying them of the withdrawal deadline and 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 monthly payments, subsequent RMDs may be satisfied either by the payments or through a supplemental payment made in December of each year. (See explanation below.)

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 make a withdrawal election prior to March 1 of the second distribution year. The notice also tells these participants that they must be paid their first year RMD no later than April 1 of the same year. The TSP pays these first year RMDs in March if no election is received.

If the participants have not made a withdrawal election by March 1 of the second distribution year, the first year RMD payment is automatically sent to the participants (according to their address of record) on March 1. In addition, another notice is sent to them notifying them of the RMD payment, and indicating that any part of their TSP account that is not already invested in the G Fund will be transferred to the G Fund on April 1, and the account will be declared abandoned and forfeited to the TSP by mid-August. On April 1, the funds in the participants' accounts that are not already in the G Fund are automatically moved to the G Fund.

For those participants who do not make a withdrawal election by the abandonment deadline, the account is declared abandoned and the balance is forfeited to the TSP mid to late August. A notice is sent to the participants notifying them of the abandonment and forfeiture. The notice also indicates that they can reclaim their account by submitting a withdrawal election through the Form TSP-70-A. This form is included with the notice. Participants do not receive earnings on the funds from the date of forfeiture to the date of restoration.

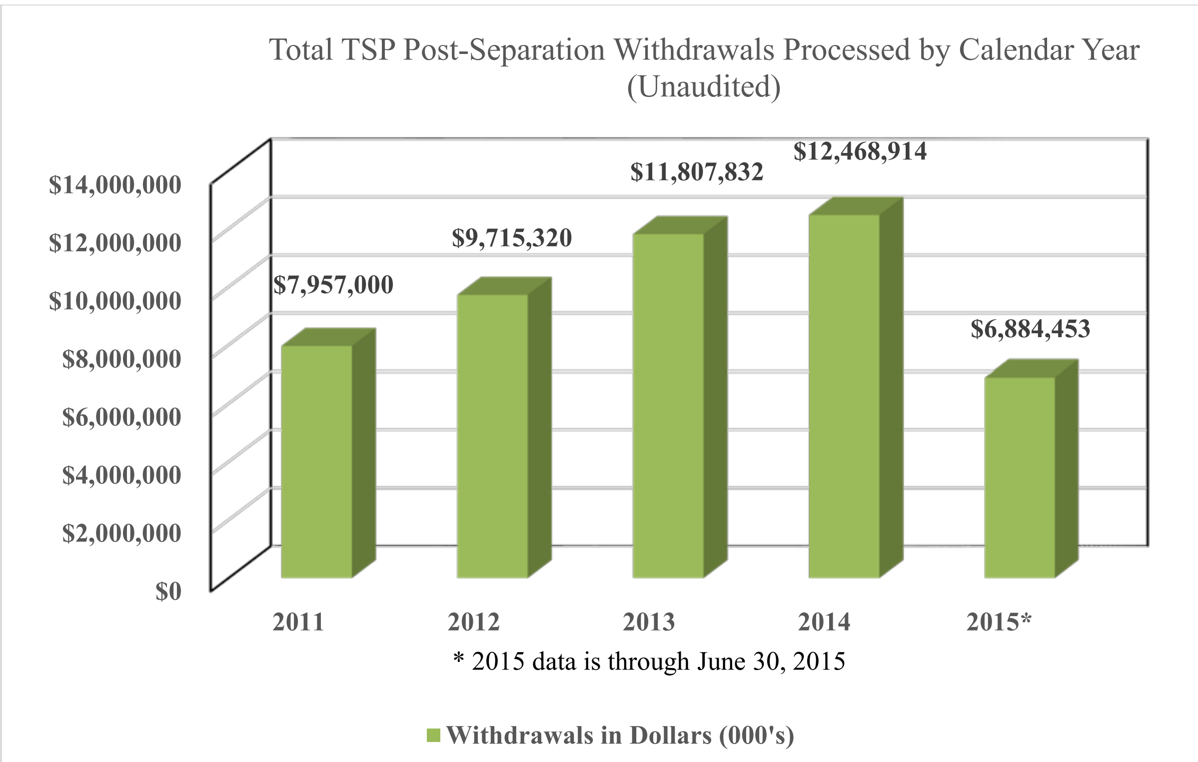
Each January, the TSP recalculates the monthly payments for those participants who have elected withdrawal payments based on life expectancy. Participants are sent a notice containing the new payment amount, and if they are due an RMD, the notice also indicates the RMD amount. The payments (as is the RMD) are based on the participants' prior year-end balance and their life expectancy factor. Supplemental RMDs are issued in December if necessary (e.g., if the monthly payments based on life expectancy started in June and the total of the monthly payments that year does not satisfy the RMD).

Any other elected withdrawals received by the participant during the year (e.g., partial, full, or mixed 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. This additional payment to meet the RMD is made in the December of each year.

D. TSP Withdrawal Statistics

Exhibit II-1 illustrates the total TSP post-separation withdrawals disbursed in dollars, including death benefit disbursements and court order disbursements,[10] for calendar years 2011 through June 2015. Exhibit II-2 presents the number of TSP post-separation withdrawals disbursed for calendar years 2011 through June 2015.

Exhibit II-1



[10] Court order disbursements include disbursements made from the accounts of participants who are still in-service.

Exhibit II-2

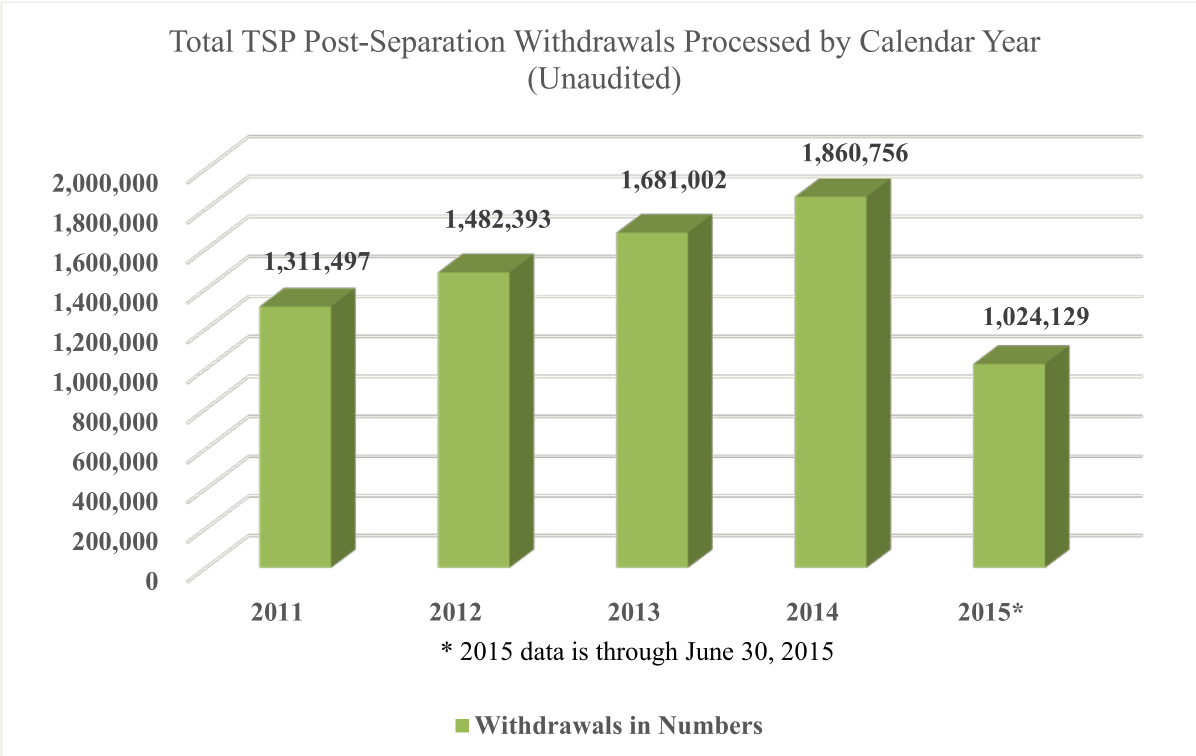

Total TSP Post-Separation Withdrawals Processed by Calendar Year
(Unaudited)
2,000,000
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
1,311,497
1,482,393
1,681,002
1,860,756
1,024,129
2011
2012
2013
2014
2015*
* 2015 data is through June 30, 2015
Withdrawals in Numbers

Exhibit II-3 presents in-service withdrawals disbursed, in dollars, each year from calendar year 2011 through June 2015. Exhibit II-4 presents the number of in-service withdrawals disbursed each year from calendar year 2011 through June 2015.

Exhibit II-3

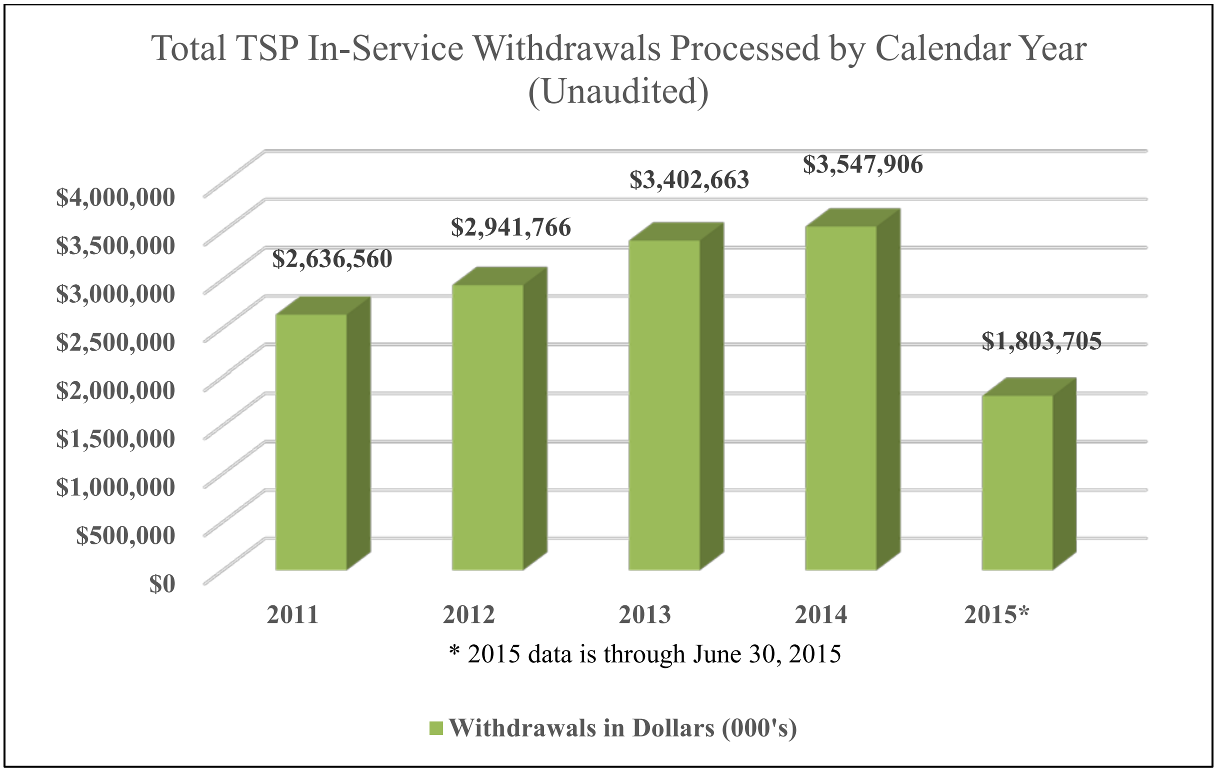


Exhibit II-4

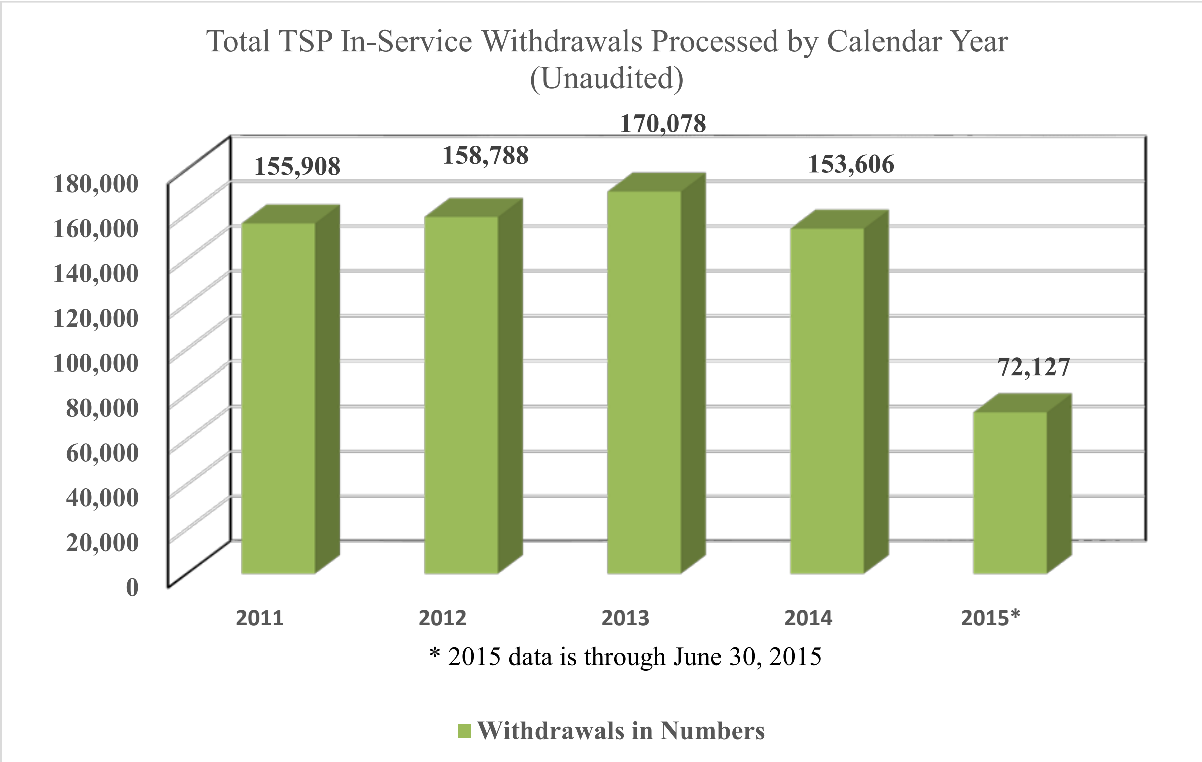
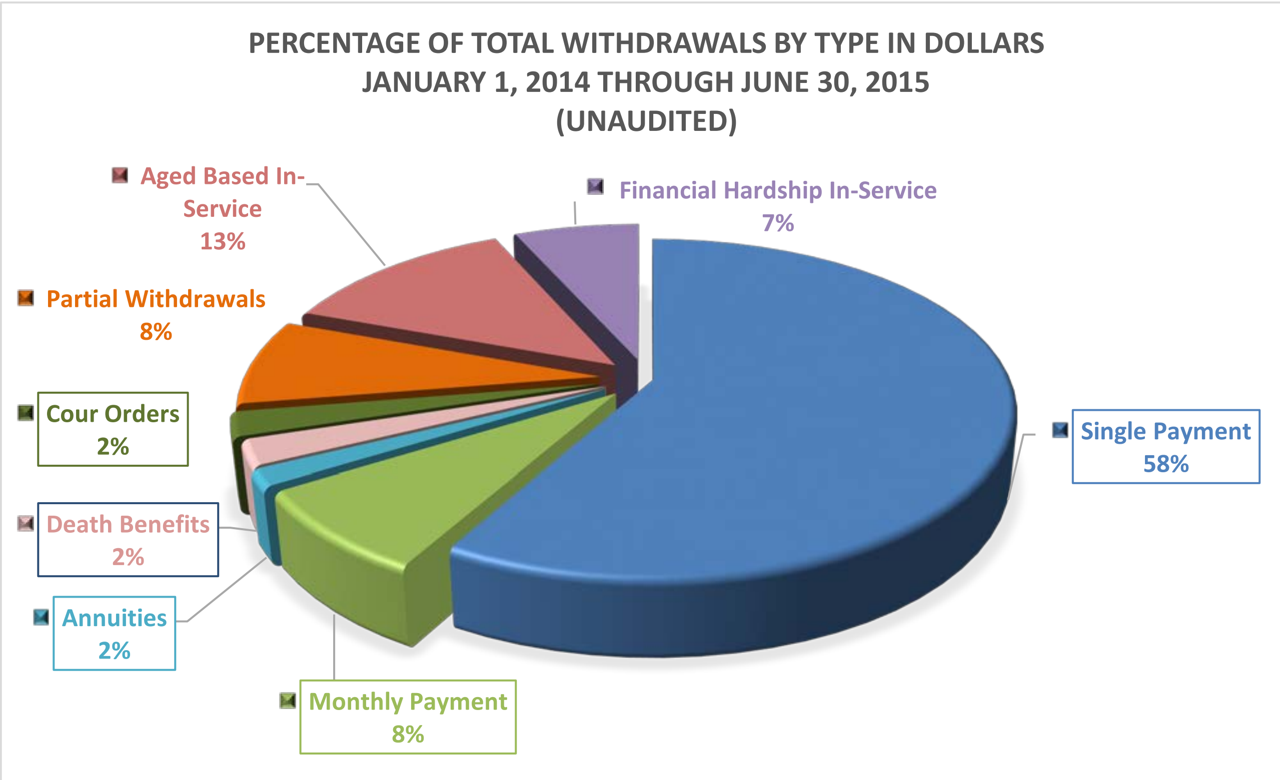

Total TSP In-Service Withdrawals Processed by Calendar Year
(Unaudited)
180,000
160,000
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
155,908
158,788
170,078
153,606
72,127
2011
2012
2013
2014
2015*
* 2015 data is through June 30, 2015
Withdrawals in Numbers

Exhibit II-5 illustrates the percentages of total withdrawal disbursements, by type, including both post-separation and in-service, from January 1, 2014 through June 30, 2015.

Exhibit II-5



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 the Thrift Savings Plan (TSP) withdrawals process.

The objectives for our performance audit over the TSP withdrawals process were to:

- Determine whether the Agency implemented certain procedures to (1) process TSP withdrawal transactions promptly and accurately in individual participant accounts, (2) process withdrawal and death benefit payments in accordance with regulations and participant authorization, and (3) accurate record withdrawal activity in the TSP accounting records;

- Test compliance of the TSP withdrawal process in accordance with 5 USC Sections 8424(d), 8433, 8434(a)(1), 8435(c), and 8440, and 5 CFR 1650, 1651.19, and 1653; and

- Determine the status of the prior year EBSA TSP open recommendations reported in *Performance Audit of the Thrift Savings Plan Withdrawals Process as of November 9, 2011.*

B. Scope and Methodology

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

The planning phase was designed to assist team members to develop a collective understanding of the activities and controls associated with the applications, processes, and personnel involved with TSP operations. 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 and compliance[11]. We conducted these test procedures at 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 testing a statistical sample using random attribute sampling to select specific TSP withdrawal transactions, which we used to determine if the Agency processed withdrawal transactions in a manner that complied with FERSA. Procedures performed included the following:

- Post-separation withdrawals, to determine if (1) post-separation withdrawals were processed in a timely manner, (2) all necessary documentation, per type of withdrawal (e.g., automatic cash-out, partial withdrawal, single payment, monthly payment, and annuity) was properly completed before a withdrawal was processed, and (3) the withdrawal amount was proper and distributed to the proper payee;
- Changes to monthly payments, to determine if (1) all necessary documentation, was properly completed before the withdrawal was processed and (2) the withdrawal amount was proper and distributed to the proper payee;
- Court orders and death benefit payments, to determine if (1) court order and death benefit payments were processed in a timely manner, (2) all necessary documentation was properly completed before a withdrawal was made, and (3) the withdrawal amount was proper and distributed to the proper payee;
- In-service withdrawals, to determine if (1) in-service withdrawals were processed in a timely manner, (2) all necessary documentation, per type of in-service withdrawal (e.g., age-based or financial hardship) was properly completed before an in-service withdrawal was processed, and (3) the in-service withdrawal amount was proper 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;
- Forfeitures of abandoned accounts, to determine if (1) the appropriate notices were sent to the participant in a timely manner prior to the account being abandoned, and (2) funds from

[11] We obtained and utilized certain information technology system settings related to the withdrawals process subsequent to the scope period and in a test environment due to timing and availability. While we could not validate independently that the EXPAG edit check controls tested were in place during the entire audit period, the Agency represented that such edit checks and settings were functionally and technically the same as those designed and operating in production environment from January 1, 2014 through June 30, 2015.

abandoned accounts were only invested in the TSP's Government Securities Investment Fund;

- Participants age 70½ or older in calendar years 2013 and 2014, to determine if (1) RMDs were processed timely for selected participants who had met age limit and employment status requirements, (2) RMDs were properly calculated, and (3) participant accounts, as appropriate, were properly abandoned and forfeited;
- Participants age 70½ or older in calendar year 2015, to determine if the appropriate participants were properly notified in a timely manner of the requirements to begin withdrawing their TSP account balance; and
- Spousal beneficiary participant accounts, to determine if accounts were established timely and for appropriate individuals.

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*.

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 conducting a performance audit at the Federal Retirement Thrift Investment Board's (Board) Staff (Agency) headquarters. Our scope period for testing was January 1, 2014 through June 30, 2015. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel, reviewing key reports and documentation (Appendix B), and observing selected procedures.

During our performance audit, we also reviewed the report, *Internal Audit of the Manual Thrift Savings Plan Transaction Process* dated July 30, 2015, issued by the Agency's Internal Audit Division that contained certain findings and recommendations relevant to our audit objectives. We considered these findings and recommendations in the planning and performance of our audit work.

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We conclude that for the period January 1, 2014 through June 30, 2015, the Agency implemented certain procedures to (1) process TSP withdrawal transactions promptly and accurately in individual participant accounts, (2) process withdrawal and death benefit payments in accordance with regulations and participant authorization, and (3) accurately record withdrawal 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 (USC) Chapter 5, Sections 8424(d), 8434(a)(1), 8433, 8435(c), and 8440 (hereinafter referred to as FERSA) or Code of Federal Regulations (CFR), Title 5, Parts 1650 and 1651.19 (hereinafter referred to as Agency regulations); however, we did identify an instance of noncompliance with certain elements of 5 CFR 1653, which describes the requirements for calculating a payee's entitlement for court order awards.

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

We also reviewed five prior U.S. Department of Labor Employee Benefits Security Administration recommendations related to the TSP withdrawals process to determine their current status. These prior year recommendations were reported in the *Performance Audit of the Thrift Savings Plan Withdrawals Process, November 9, 2011*. Section III.B documents the status of these prior recommendations. In summary, two recommendations have been implemented and closed, one recommendation has not been implemented but was closed, one recommendation has been partially implemented but was closed and reissued under a new recommendation, and one recommendation has been partially implemented and remains open.

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

B. Findings and Recommendations from Prior Reports

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

2005 Withdrawals Process Recommendation No. 2

Title: Remaining balance in TSP account subsequent to full post-separation withdrawal

Original Recommendation: The Agency should identify those participants who have taken a full post-separation withdrawal but have balances remaining in their accounts, and disburse those remaining balances to the participants.

Reason for Recommendation: We judgmentally selected a sample of 118 transactions related to required minimum distributions (RMD) and abandonments/forfeitures. For six of the transactions tested, we noted that balances remained in the participants' accounts after the participants had separated from Federal service and had taken full post-separation withdrawals. Although three of the six aforementioned participant accounts were subsequently abandoned and forfeited in accordance with the Agency's established procedures, the other three accounts had balances remaining in them as of end of our fieldwork.

Status: **Partially Implemented.**
During our 2011 audit of the withdrawals process, we noted that the Agency had 28,000 TSP accounts for which participants had previously requested a full post-separation withdrawal but still had a residual balance as of May 17, 2011. The total for these accounts was $2.3 million and we noted the majority of this balance had existed since 2005 or earlier. We followed up during our current year engagement and noted that the Agency had taken steps to determine the status of accounts that still had residual balances to ensure appropriate payout of remaining balances; however, sufficient evidence to support the disbursement of funds for identified accounts was not provided during our fieldwork. As such, this recommendation remains open.

Disposition: **Recommendation Open.**

2011 Withdrawals Process Recommendation No. 1

Title: Inaccurate establishment of beneficiary participant accounts

Original Recommendation: The Agency should evaluate the specific cause of the BPA deficiency identified and develop the appropriate corrective action to enhance supervisory review of the applicable TSP forms to ensure that BPAs are only established for qualifying spouses.

Reason for Recommendation We selected 58 BPAs established during the year ended December 31, 2010 for testing and noted that one of the spousal BPAs selected was established for the son of a deceased participant.

Status: **Not Implemented.**

Beginning in December 2010, the Agency implemented a process to establish BPAs if a qualifying spouse's share of death benefits is $200 or more. Upon completion of participant death processing procedures by the TSP Death Benefit Processing Unit, BPAs are automatically established in the TSP system based on beneficiary documentation previously submitted by the participant. During our current year audit, we selected a sample of 58 BPAs and determined that all were properly established for qualifying spouses.

Although the recommendation above was not implemented, the aforementioned procedures address the previous issues identified related to BPAs. Therefore, we consider this recommendation closed.

Disposition: **Recommendation Closed.**

2011 Withdrawals Process Review Recommendation No. 2

Title: Proper notifications to participants

Original Recommendation: The Agency should evaluate the specific cause of the notification deficiencies identified and develop the appropriate corrective action to ensure that the TSP system is properly configured so that all necessary notifications are sent to participants in accordance with applicable Board regulations and policies.

Reason for Recommendation During our 2011 testing, we selected a sample of 58 accounts that were abandoned and subsequently forfeited to the TSP during calendar year 2010 and a sample of 58 participants turning age 70 ½ in calendar year 2011. As a result of our testing, we determined that account holders for 10 of the abandoned accounts selected did not receive the required notification warning them that their account would be abandoned and subsequently forfeited. In addition, 13 of the selected participants turning 70 ½ did not receive the required notification regarding the required minimum distribution guidelines.

Status: **Implemented.**

During our 2015 testing, we noted that the Agency implemented a process to review the initial data file of RMD notifications, which includes notifications for accounts that will be abandoned, prior to the file moving to the production phase to ensure that required notifications were sent to applicable participants. We tested a sample of 58 participants turning 70 ½ in calendar year 2014 and a sample of 58 accounts that were abandoned and subsequently forfeited during our scope year and noted that the related participants received the required notifications, as applicable.

Disposition: **Closed.**

2011 Withdrawals Process Review Recommendation No. 3

Title: Accuracy of court order payments

Original Recommendation: The Agency should enhance its management review of court order payments to ensure they are processed accurately in accordance with applicable court orders.

Reason for Recommendation During our 2011 testing, we selected a sample of 19 court order payments processed during the year ended December 31, 2010 and noted that one of the court orders awarded the payee one-third of the participant's account balance as of November 11, 2009. The Agency entered the percent of the balance awarded as 33% rather than 33.33%, which resulted in the payee being underpaid by $147.

Status: **Partially Implemented.**

The Agency has partially implemented this recommendation through documentation of procedures over the review of court orders. However, we identified an error during our current year testing over court order payments, but we determined the root cause of the error differed from the prior year finding. As a result, we have revised and reissued this recommendation as a 2015 recommendation within this report to address the current root cause.

Disposition:	**Recommendation Closed.** See recommendation no. 2015-1 within this report.

2011 Withdrawals Process Review Recommendation No. 4

Title:	Erroneous payments of required minimum distributions
Original Recommendation:	The Agency should verify that its corrective action related to the December 2010 erroneous RMDs adequately resolved the coding error to ensure the TSP system is properly identifying participants who are eligible for RMDs.
Reason for Recommendation	In late December 2010, the Agency incorrectly processed RMDs to certain TSP participants. This error resulted in 9,271 participants, who had not reached their RMD eligibility date, receiving distribution checks totaling approximately $58 million. Additionally, 451 participants whose first year RMD payment would normally have occurred in March 2011 received their payments earlier than required; these early payments totaled approximately $3 million. In addition, the Agency communicated during our audit that the coding error in the TSP system that caused the erroneous payments was corrected in August 2011.
Status:	**Implemented.** During our 2011 performance audit, the Agency communicated that the coding error in the TSP system that caused the erroneous payments was corrected in August 2011. However, because the RMD process only occurs once a year, we were unable to verify that the corrective action taken effectively resolved the issue during our scope period. During our 2015 testing, we noted that the Agency implemented and documented draft policies and procedures over the RMD processing cycle. Weekly meetings were held with key stakeholders to review the initial RMD file for the year prior to the file moving to the production phase. In addition, the Agency researches RMD participant data discrepancies, verifying test case scenarios are valid prior to processing. The Agency also

performs other procedures that include reviewing the change in the total number of RMD participants from year to year and researching the changes to ensure the increase or decrease is reasonable.

Further, during the current year, we tested a sample of 58 RMD transactions and found no exceptions to the withdrawal amounts.

Disposition: **Recommendation Closed.**

C. 2015 Findings and Recommendations

While conducting our performance audit over the TSP withdrawal process, we identified one new fundamental control finding related to court order entitlements and one other control finding related to TSP imaging system control documentation, and developed related recommendations. EBSA requests appropriate and timely action for each recommendation.

FUNDAMENTAL CONTROL RECOMMENDATION

Court Order Entitlement Weaknesses

The TSP disburses court order payments through an established payee skeletal account. Once a court order is approved, the TSP system creates the skeletal account based on the related participant's information. The applicable entitlement amount is calculated by the TSP and transferred to the skeletal account to await disbursement. The entitlement amount is based on the proportional distribution of vested funds from the participant's account. During our current year procedures over court order withdrawals, we tested a sample of 58 withdrawals and identified one exception in which the total court order entitlement of $7,790 was not disbursed to the payee despite the participant account having sufficient vested funds.

The exception occurred because subsequent to the initial calculation of the entitlement and transfer of funds to the skeletal account, a service date change for the participant was processed. This caused $536 of the entitlement amount in the skeletal account to become nonvested. As a result, the TSP system only disbursed the vested portion of $7,254 from the skeletal account. However, we noted that the total vested balance in the participant's account was sufficient to satisfy the full court order entitlement as of the date of disbursement. Due to system limitations, when the TSP nightly batch process runs and determines the disbursement amount to pay from skeletal payee accounts, the disbursement amount is based only on vested funds in the skeletal account, without regard to the participant's full vested account balance. Furthermore, the Agency did not have controls in place to ensure the final court order entitlement was based on the total vested account balance on the date of disbursement.

5 CFR 1653.4(d) states, "If the court order awards a specific dollar amount, the payee's entitlement will be the lesser of: (1) The dollar amount stated in the court order; or (2) The vested account balance on the date of disbursement."

5 CFR 1653.4(g) states, "The TSP will estimate the amount of a payee's entitlement when it prepares the court order decision letter and will recalculate the entitlement at the time of payment. The recalculation may differ from the initial estimation because: (1) The estimation of the payee's entitlement includes both vested and nonvested amounts in the participant's account. If, at the time of payment, the nonvested portion of the account has not become vested, the recalculated entitlement will apply only to the participant's vested account balance…."

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 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. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions."

1. **The Agency should implement controls that require the review of court order entitlements disbursed to payee skeletal accounts, as of the date of payment, to ensure that payments from payee skeletal accounts are paid based on total available vested funds from the related participant account.**

Without sufficient controls in place over court orders, there is an increased risk of inaccurate disbursements that could result in noncompliance with FERSA and Agency regulations.

OTHER CONTROL RECOMMENDATION

Insufficient Documentation for TSP Imaging System Controls

The Agency's imaging system is designed with certain edit checks to help ensure that the data entered to process withdrawals transactions is valid. During our current year performance audit, one of the edit checks selected for testing was designed to trigger a specific program error code if an annuity was selected as part of a mixed election withdrawal and the participant's account balance was less than the required $3,500. When testing this control, it did not appear to be operating as designed. We inquired as to the cause of the potential deficiency and Agency personnel initially had difficulties explaining the nature of the edit check and which component of the TSP system actually executed it. The various explanations were inconsistent and called into question if the control was properly documented. The Agency ultimately determined that the edit check was properly documented but that the participant account created to test the edit check was established incorrectly in the test environment. As a result, we were unable to complete our testing over this edit check.

This issue occurred because the documentation related to the TSP imaging system controls was not at an appropriate level of detail to enable the Agency to properly explain the edit check in a timely manner or properly design a test to demonstrate the edit check was operating effectively.

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 12.03 states, "Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity."

2. **The Agency should update its documentation related to the TSP imaging system controls to provide Agency personnel a sufficient understanding of the related controls, allowing for proper monitoring of them.**

Without sufficient documentation, the Agency may not be able to monitor existing controls to ensure they are operating effectively, properly train new employees in the event that current employees suddenly vacate their positions, or adequately explain how the system operates to individuals requiring this information.

D. Summary of open recommendations

<u>2005 RECOMMENDATIONS</u>:

RECOMMENDATION TO ADDRESS FUNDAMENTAL CONTROLS

2. The Agency should identify those participants who have taken a full post-separation withdrawal but have balances remaining in their accounts, and disburse those remaining balances to the participants.

<u>2015 RECOMMENDATION:</u>

RECOMMENDATION TO ADDRESS FUNDAMENTAL CONTROLS

1. The Agency should implement controls that require the review of court order entitlements disbursed to payee skeletal accounts, as of the date of payment, to ensure that payments from payee skeletal accounts are paid based on total available vested funds from the related participant account.

RECOMMENDATION TO ADDRESS OTHER CONTROLS

2. The Agency should update its documentation related to the TSP imaging system controls to provide Agency personnel a sufficient understanding of the related controls, allowing for proper monitoring of them.

AGENCY RESPONSE

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

THRIFT SAVINGS PLAN

September 20, 2016

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

Dear Ian:

This is in response to KPMG's email of September 15, 2016, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Withdrawals Process, dated September 2016. 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,

Gregory T. Long

Enclosure

AGENCY RESPONSE

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

2005 RECOMMENDATION

RECOMMENDATION TO ADDRESS OTHER CONTROLS

2005 – 2 Remaining Balance in TSP Account Subsequent to Full Post-Separation Withdrawal:

The Agency should identify those participants who have taken a full post-separation withdrawal but have balances remaining in their accounts and disburse those remaining balances to the participants.

Response

The Agency has identified the affected participants and disbursed the remaining balances where possible. The Agency is developing a process for the systematic identification, processing, and disbursement of subsequent (or new) accounts of participants who have taken a full post-separation withdrawal but have balances remaining. This process will be implemented by April 24, 2017.

2015 RECOMMENDATIONS

RECOMMENDATION TO ADDRESS FUNDAMENTAL CONTROLS

2015 – 1 Court Order Entitlement Weakness:

The Agency should implement controls that require the review of court order entitlements disbursed to payee skeletal accounts, as of the date of payment, to ensure that payments from payee skeletal accounts are paid based on total available vested funds from the related participant account.

AGENCY RESPONSE

Response

The Agency concurs with this recommendation. The Agency will implement controls that require the review of court order entitlements disbursed to payee skeletal accounts, as of the date of payment, to ensure that payments from payee skeletal accounts are paid based on total available vested funds from the related participant account. This control will be in documented and implemented by January 30, 2017.

RECOMMENDATION TO ADDRESS OTHER CONTROLS

2015 – 2 Insufficient Documentation for TSP Imaging System Controls:

The Agency should update its documentation related to the TSP imaging system controls to provide Agency personnel a sufficient understanding of the related controls, allowing for proper monitoring of them.

Response

The Agency concurs with this recommendation. The Agency will update its documentation related to the TSP imaging system controls to provide Agency personnel a sufficient understanding of the related controls, allowing for proper monitoring of these controls. This corrective action will be completed by February 27, 2017.

APPENDIX B

KEY DOCUMENTATION AND REPORTS REVIEWED

Federal Retirement Thrift Investment Board Documents and Reports

- TSP Bulletin 14-3, *Agency Responsibilities When Thrift Savings Plan Participants Separate From Federal Service*
- TSP Booklet: *In-Service Withdrawals*, dated May 2012
- TSP Booklet: *Withdrawing Your TSP Account After Leaving Federal Service*, dated March 2014
- TSP Booklet: *Your TSP Account: A Guide for Beneficiary Participants*, dated September 2015
- TSP Booklet: *Court Orders and Powers of Attorney*, dated September 2014
- TSP Booklet: *Death Benefits*, dated September 2015
- *Internal Audit of the Manual Thrift Savings Plan Transaction Process*, July 30, 2015
- *Internal Audit of the Daily Investment Process*, June 1, 2016
- TSP Tax Notice: *Tax Information: Death Benefit Payments*, dated October 2015
- TSP Tax Notice: *Required Minimum Distributions*, dated September 2015
- TSP Tax Notice: *Required Minimum Distribution for Beneficiary Participants*, dated September 2015
- TSP Tax Notice: *Tax Information: Payments From Your TSP Account*, dated January 2016
- TSP Leaflet: *The Time is Near for Withdrawing Your TSP Account*, dated October 2010
- TSP Leaflet: *TSP Withdrawals*, dated April 2013
- *OPOP.121 Withdrawals Procedures*, dated February 2014
- *Special Processing Unit Desk Procedures*, dated June 2015
- Form TSP-3, *Designation of Beneficiary,* for selected dates during our scope period of January 1, 2014 through June 30, 2015
- Form TSP-17, *Information Relating to Deceased Participant,* for selected dates during our scope period of January 1, 2014 through June 30, 2015
- m TSP-16, *Exception to Spousal Requirements*, for selected dates during our scope period of January 1, 2014 through June 30, 2015
- Form TSP-75, *Age-Based In-Service Withdrawal Request*, for selected dates during our scope period of January 1, 2014 through June 30, 2015
- Form TSP-76, *Financial Hardship In-Service Withdrawal Request*, for selected dates during our scope period of January 1, 2014 through June 30, 2015
- Form TSP-70, *Request for Full Withdrawal*, for selected dates during our scope period of January 1, 2014 through June 30, 2015

KEY DOCUMENTATION AND REPORTS REVIEWED

- Form TSP-73, *Change in Monthly Payments*, for selected dates during our scope period of January 1, 2014 through June 30, 2015
- Form TSP-77, *Request for a Partial Withdrawal When Separated*, for selected dates during our scope period of January 1, 2014 through June 30, 2015
- Form TSP-90, *Withdrawal Request for Beneficiary Participants,* for selected dates during our scope period of January , 20141 through June 30, 2015
- TSP 3404, *Investment True-Up of Trades Report – Withdrawal Activity*, for selected dates during our scope period of January 1, 2014 through June 30, 2015
- TSP 3405, *Investment True-Up of Trades Report – Loan Disbursements*, for selected dates during our scope period of January 1, 2014 through June 30, 2015
- TSP 3070, *Miscellaneous Receipts and Loan Refunds*, for selected dates during our scope period of January 1, 2014 through June 30, 2015
- TR-20, *OmniPay Disbursement Detail – Check and ETF Payments*, for selected dates during our scope period of January 1, 2014 through June 30, 2015
- SF-1166, *Voucher and Schedule of Payments*, for selected dates during scope period January 1, 2014 through June 30, 2015
- TSP-9013, *Disbursement Listing Report – Detail – Payment Type Totals*, for selected dates during scope period January 1, 2014 through June 30, 2015
- TSP-9120, *Disbursement Reconciliation*, for selected dates during scope period January 1, 2014 through June 30, 2015
- TSP-9130, *General Ledger Reconciliation*, for selected dates during scope period January 1, 2014 through June 30, 2015