Employee Benefits Security Administration

Performance Audit of the Thrift Savings Plan Loans Process

August 30, 2023

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EXECUTIVE SUMMARY

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

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Washington, D.C.

As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of the Thrift Savings Plan (TSP) loans process. Our fieldwork was performed remotely from January 6, 2023, through May 16, 2023, in coordination with personnel primarily from the Federal Retirement Thrift Investment Board Staff's (Agency) headquarters in Washington, DC. Our scope period for testing was June 1, 2022, through January 31, 2023.

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

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

- Determine whether the Agency and its vendor 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) and 5 CFR 1655.2, 1655.4, 1655.5, 1655.6, 1655.7, 1655.9, 1655.12, 1655.13(a-d), 1655.14(a-f), 1655.15(a-d), 1655.16(a-c), 1655.17(a-b), 1655.18(a-c), 1655.19, 1655.20(a)(e-f), and 1655.21; and

- Assess the status of the prior EBSA TSP open recommendation reported in *Performance Audit of the Thrift Savings Plan Loans Process,* dated July 20, 2021.

We present 11 new findings and 16 related recommendations, of which 12 address fundamental controls and 4 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. These recommendations are intended to strengthen the TSP loans process. The Agency should review and consider these recommendations for timely implementation. Section III.C presents the details that support the current year findings and recommendations.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period June 1, 2022, through January 31, 2023, the Agency and its vendor 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. However, we noted internal control weaknesses in certain areas that could adversely affect the TSP loans process.

As a result of our compliance testing, we did not identify any instances of noncompliance with applicable provisions of FERSA or 5 CFR 1655.2, 1655.4, 1655.5, 1655.6, 1655.7, 1655.9, 1655.12, 1655.13(a-d), 1655.14(a)(c-d), 1655.15(b-d), 1655.16(b-c), 1655.17(a-b), 1655.18(a-c), 1655.19, 1655.20(a)(e-f), or 1655.21. However, we did identify instances of noncompliance with certain elements of 5 CFR 1655.14(b)(e-f), 1655.15(a), and 1655.16(a) as described in recommendation nos. 2023-03, 2023-04, 2023-05, 2023-06, and 2023-07 in Section III.C.

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[1] *Government Auditing Standards* section 8.15 defines significance in the context of a performance audit.

We also reviewed one prior EBSA recommendation related to the TSP loans process to determine its current status. Section III.B documents the status of the prior recommendation. In summary, the recommendation has been implemented and closed.

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

Recommendation Number Title, and Description	**Auditors' Response**
2023-01, Ineffective Loan Initiation Controls: Design and implementation of a secondary review process over primary residence loan applications and supporting documentation that is based on established criteria	We identified deficiencies related to the ineffective design and implementation of residential loan initiation controls during the scope period. We acknowledge that the Agency's vendor has a "Tier 2" process in which the processor identifies complex applications for a secondary review on an as-needed basis. However, no consistent criteria for identifying a loan request for "Tier 2" review had been established, and no process was in place to confirm that loan requests were consistently processed in accordance with policies and procedures. Effective controls are critical to ensuring that residential loan requests are appropriately reviewed for accuracy, complete supporting documentation, and participant eligibility prior to processing. As such, we did not make any changes to our recommendation.

Recommendation Number, Title, and Description	Auditors' Response
2023-02, Ineffective Loan Initiation Controls: Design and implementation of segregation of duties controls to limit the ability to approve primary residence loan requests to individuals who have completed the requisite training	We identified deficiencies related to the ineffective design and implementation of segregation of duties controls in the residential loan review process. Specifically, the user roles were not configured to restrict users outside of the personnel who had received technical training on the loan initiation process from approving primary residence loan requests. Although we acknowledge that the Agency's vendor cross-trains personnel across multiple processes, we noted that the vendor did not document and retain evidence that personnel had completed the primary residence loan technical training. Additionally, the vendor only required personnel who were assigned full-time or part-time to the primary residence loans team to complete the related technical training. As such, we did not make any changes to our recommendation.

This performance audit did not constitute an audit of the TSP's financial statements or an attestation engagement as defined by *Government Auditing Standards* and the AICPA standards for attestation engagements. 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

August 30, 2023

I. BACKGROUND OF 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 Savings Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System (FERS) and the Blended Retirement System (BRS), and provides a Federal (and, in certain cases, State) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of the uniformed services, and members of Congress and certain Congressional employees. The TSP began accepting contributions on April 1, 1987, and as of January 31, 2023, had approximately $759 billion in assets and approximately 6.8 million participants[2].

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

B. TSP System[3]

The TSP recordkeeping systems (TSP system) are a collection of applications that value accounts daily, process and record loans and withdrawals, record contributions, and process interfund transfer requests for TSP participants and beneficiaries. In November 2020, the Agency contracted with a vendor to provide recordkeeping services for the TSP under a recordkeeping services acquisition contract (i.e., the Converge contract)[4]. The vendor subcontracted with a commercial financial recordkeeping organization to develop and maintain the Converge core recordkeeping systems and associated support subsystems, referred to collectively as the Participant Administrative Services (PAS) systems. The vendor manages and operates the Converge supporting business capabilities (i.e., customer relationship management, contact center operations, analytics, fraud, security operations, and the TSP.gov website), referred to collectively as the non-PAS systems. The primary recordkeeping system used in the loans process is the [redacted]

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

[3] Source: Internally sourced system documentation.

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

[redacted] system, a PAS system. Converge was implemented during the third quarter of fiscal year 2022.

C. Overview of the TSP Loans Process[5]

1. Loan Requirements – Borrowing Rules

Under FERSA, as amended, any time before separation, TSP participants in pay status may borrow a portion of the amounts they have contributed and related earnings. Agency automatic (1%) contributions, matching amounts, and related earnings 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 primary residence 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, 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 primary residence loan. Both the Thriftline loans workflow and the TSP.gov "My Account" website (TSP website) interface perform edit checks to determine if 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 their own contributions, including related earnings, in their account as the smallest amount a participant can borrow is $1,000.
- The loan term must be for greater than 12 months or 61 months for general-purpose loans and primary residence loans, respectively.
- The loan must comply with Internal Revenue Code (IRC)[6] 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,

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[5] Sources: *TSP Loan Booklet*, December 2022; Agency Loans Policy; and Agency Loans Procedures.

[6] IRC Title 26 Chapter 72(p)(2)(A).

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.

- 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.
- A participant may have no more than two loans outstanding from their TSP account at any time, and no more than one outstanding loan from an account may be a primary residence loan. A participant with both a civilian TSP account and a uniformed services TSP account may have two outstanding loans from each account.
- Participants who pay off their TSP loans are not eligible to apply for another loan of the same type for 30 business days after full repayment.
- Payments may not be disbursed to bank accounts or addresses that have been added to the participant's account within the last seven days.
- Loans may not be requested while another loan request is in process.
- 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 may request a loan through the TSP website or by calling the TSP Thriftline. Participants may be able to complete the loan process entirely online depending on their retirement system coverage, marital status, the type of loan, and method selected for receipt of funds. If the loan process can be completed entirely online, the loan request is automatically approved and processed within 24 business hours.

The TSP system performs various edit checks on the loan requests received to determine whether the participant is eligible for a loan and whether any suspected errors or discrepancies exist. If suspected errors or discrepancies exist, the TSP system will display an error message and will not allow the user to move forward in the loan request workflow.

One of the primary reasons a loan cannot be processed entirely online is if the participant is a married FERS or BRS participant. For married Civil Service Retirement System (CSRS) participants, the TSP is only required to notify the spouse when the participant applies for a loan. Once a married FERS or BRS participant submits a loan request online or through the ThriftLine, a spousal consent form is either emailed or mailed directly to the spouse. The spouse may provide their consent through a digital DocuSign signature or wet signature and submit the completed form back to the TSP through DocuSign or the mail. In certain instances, a participant may receive a spousal waiver if they can demonstrate that their spouse's whereabouts are unknown or exceptional circumstances make it inappropriate to secure the spouse's consent. The Agency's vendor is responsible for reviewing spousal consent forms to determine consent has been provided prior to approving the loan for processing.

In addition, primary residence loan requests cannot be processed entirely online. Once the loan request is completed through the TSP website or the ThriftLine, the participant is sent instructions to provide additional supporting documentation to substantiate the purchase of the primary residence. 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. Supporting documentation may either be uploaded to the participant's account on the TSP website or mailed directly to the TSP.

The Agency's vendor reviews and approves loan agreement packages for all loan applications that are not or cannot be submitted entirely via the TSP website or the Thriftline. If supporting documentation is not received within the timeline designated by the TSP, the loan request will be automatically cancelled. Once the Agency's vendor receives the completed loan package from the participant, they review the supporting documentation to verify that all required documentation has been received and fulfils the eligibility requirements for processing the loan.

If the loan request is determined to be free of errors and the supporting documentation, if applicable, is approved in the TSP system, the loan transaction information from the loan application is transmitted to the nightly processing cycle. During the nightly processing cycle, the TSP system generates a notice of the approved loan that includes pertinent loan data, such as the loan number, participant information, loan terms, and interest rate, which is mailed to the participant.

3. Loan Disbursement and Re-amortizations

Once the loan has been approved, the loan is scheduled for disbursement. 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. A $50 or $100 fee is charged for each new general purpose or primary residence loan, respectively, and is deducted from the proceeds of the loan. 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 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 rate applicable to the TSP Government Securities Investment Fund on the 15th of the month prior to the loan effective date. Once the loan is disbursed, the TSP system automatically creates an amortization schedule based on the terms of the loan agreement that calculates the payment amount, accrued interest, and amount applied to the loan principal for the entire loan term.

Participants can access the terms of their loans via the TSP website. Participants are responsible for communicating changes in payroll frequency to the TSP, which will initiate a loan re-amortization through the TSP system. Any loan re-amortized must continue to comply with TSP requirements for a maximum five-year loan term for general purpose loans and 15-year term for primary residence loans. No fee is charged to the participant for re-amortization of a loan.

4. Loan Accounting and Reconciliations

The Agency's Office of the Chief Financial Officer (OCFO) and the Agency's vendor 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.

Daily, an accountant within OCFO reconciles outstanding loan activity within the TSP system to the general ledger at the plan level. In addition, the Agency's vendor performs a daily reconciliation of loan payments recorded by the Treasury to those recorded in the general ledger at the plan level. The Agency's vendor also performs a reconciliation of all disbursement activity, including loan disbursements, between Treasury and the TSP system.

The OCFO's Accounting Division uses financial reports generated by the investment management system and the TSP system to prepare a manual journal entry to record daily loan activity to the general ledger.

5. Payroll Office Loan Repayments

All loans for active participants are required to be repaid through payroll withholding. Upon completion of the loan disbursement, a TSP report containing pertinent participant information is sent electronically to the participant's Federal agency or uniformed service payroll office to initiate payroll deductions from the participant's pay. These reports are only sent to payroll offices 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.

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 payroll offices. 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 payroll office. Principal repayments and interest payments are allocated pro-rata based on the participant's source (i.e., traditional, Roth, and tax-exempt) at loan issuance and based on the participant's current allocation rates by investment fund. Participants are responsible for ensuring that loan payments are being properly withheld from their paychecks.

6. Treatment of Loan Prepayments, Additional Payments, Refunds, and Delinquencies

Loan Prepayments and Additional Payments

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. Additionally, participants may make additional payments on their loans (i.e., catch-up payments to bring their loan balances current). Additional payments and prepayments can be made directly to the TSP by personal checks or direct debit transactions at the discretion of the participant.

Participants may either call the ThriftLine or visit the TSP website 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 and include the loan number and social security number. After the check is scanned by Treasury, the Agency's vendor reviews the loan payment coupon and compares the data on the coupon to data on the check. If they match, the check is processed. Checks submitted to the TSP are processed and funds are posted to the participant's account normally within two to three business days of receipt. Loan prepayments and additional payments are allocated pro-rata based on the participant's source (i.e., traditional, Roth, and tax-exempt) at loan issuance and based on the participant's current allocation rates by investment fund. Direct debit payments are initiated by the participant and processed through Treasury's Pay.gov website. Direct debits may be one-time payments or recurring monthly payments for participants that are not active employees of the Federal government or the uniformed services.

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 TSP notifies the applicable payroll office to stop loan payments.

Loan Refunds

A participant is entitled to a refund when their 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

Monthly, an automated loan default sweep is generated in the TSP system to identify participants who are behind more than two payments on their loan or whose payments are made for less than the required amount. Participants identified receive a system-generated notice of a pending deemed (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. Participants will continue to receive delinquency notices monthly until their loan delinquency is cured or the loan is declared a taxable distribution.

For participants that have missed two or more loan payments, if the appropriate amount is not posted to the loan account by the end of the quarter following the quarter the first missed payment occurred, 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 about the loan closure and declaration of the taxable distribution. Subsequently, taxable distributions are documented on the Internal Revenue Service Form 1099-R and submitted to the participant at the end of the calendar year for income 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 outstanding loan. The taxed loan will be considered one of the participant's available loans until the participant pays the TSP the balance of the distribution in full.

7. Changes in Participant Status

<u>Participant Separations</u>

When a participant separates from Federal service, the TSP receives the separation code from the participant's agency or uniformed service via the [redacted] If the participant has an outstanding loan at the time of separation, the TSP automatically generates and sends the participant a notice stating that the participant has been separated from their previous agency/service and must repay the loan in full within 90 days of the notice or the loan will be declared 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 uniformed service. If a participant is in default status at the time of separation, the separation takes precedence over the default process, and the participant has 90 days to repay the loan. A participant may accelerate the 90-day notice by signing an Intent Not to Repay Statement, which is processed through the Agency's vendor and results in the immediate declaration of a taxable distribution.

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 uniformed services.

Non-Pay Status

Participants that enter non-pay status to perform military service are permitted to suspend payments on their loans until they return to pay status. Participants on a non-military leave of absence 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 their respective agency or uniformed service) for one year or more (unless related to a civilian serving in active-duty military service), the participant is responsible for making loan payments from their personal funds to avoid being in default.

When a participant returns from non-pay status, their 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-military, non-pay status. For military service non-pay status, the maximum time limits for repayment are extended by the length of military service. For other non-pay status, the time limits for loan repayment are extended by the number of months the participant was in non-pay status, up to the maximum limit of loan duration per regulations.

If the participant fails to make the required payments on the re-amortized loan, the participant is subject to the delinquency process discussed above. Interest continues to accrue automatically in the TSP system during the period the loan is outstanding, including during non-pay status.

The primary method to document non-pay status is submission of the applicable TSP form (TSP-41) by the employing agency or uniformed 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.

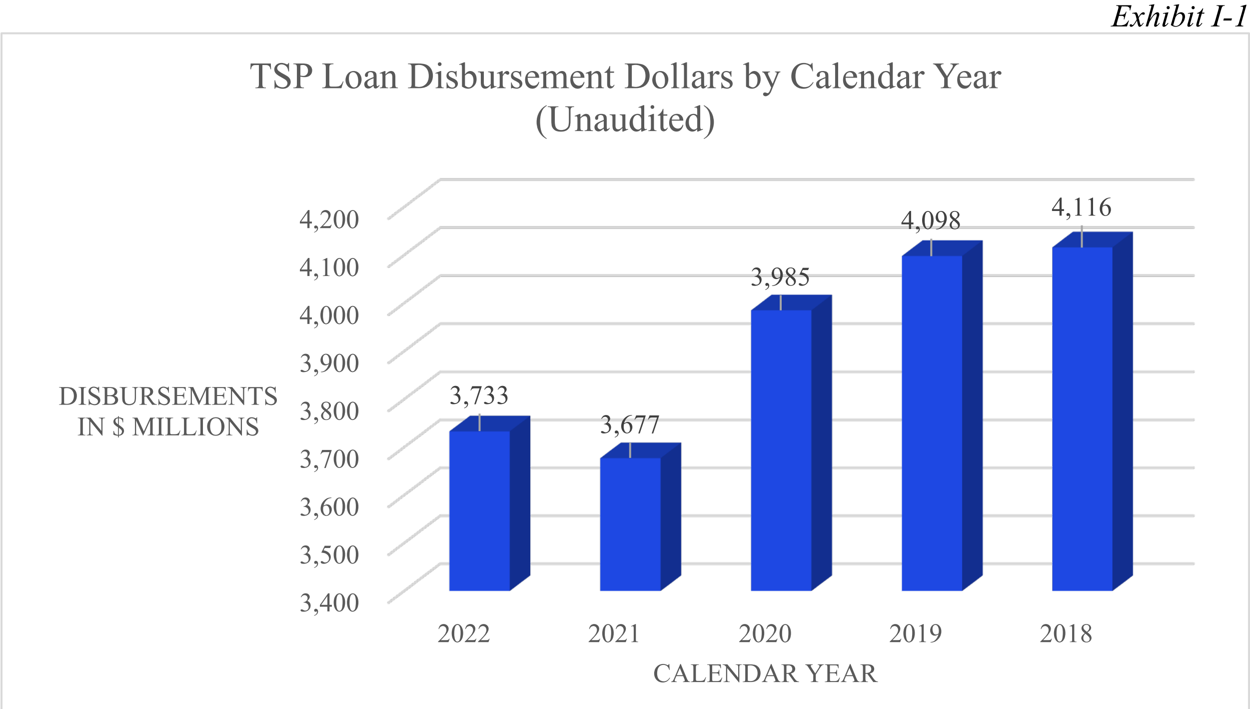
8. Loan Program Management and Monitoring

The Agency's Office of Participant Experience (OPE) is responsible for establishing the operating policies and procedures for the TSP loan program. Agency management reviews loan-related performance measures on a monthly basis, which includes numerous Service Level Requirements (SLRs) and Key Performance Indicators (KPIs) established in the Converge contract. Loan-related SLRs and KPIs include timely and accurate processing of transactions and information and timely and appropriate communications. The Agency's vendor submits performance reports, which are reviewed monthly by the Agency stakeholders for each operational area. After each Agency stakeholder performs and documents independent verification of the vendor's performance for the period, the OPE Contracting Officer Representative reviews and approves the package. OPE may escalate consistent or significant issues to the Board level for further consideration and action.

9. TSP Loans Statistics

TSP loans have been disbursed since the inception of the loan program on January 1, 1988. Exhibit I-1 illustrates total loan dollars disbursed[redacted] during the last five calendar years. TSP loan disbursements increased $56 million, or 1.5 percent, from calendar year 2021 to calendar year 2022.

Exhibit I-1



[redacted]

Exhibit I-2 presents the number of loans disbursed during the last five calendar years[redacted] The number of loans processed increased by 94,425, or 41 percent, from calendar year 2021 to calendar year 2022.

Exhibit I-2

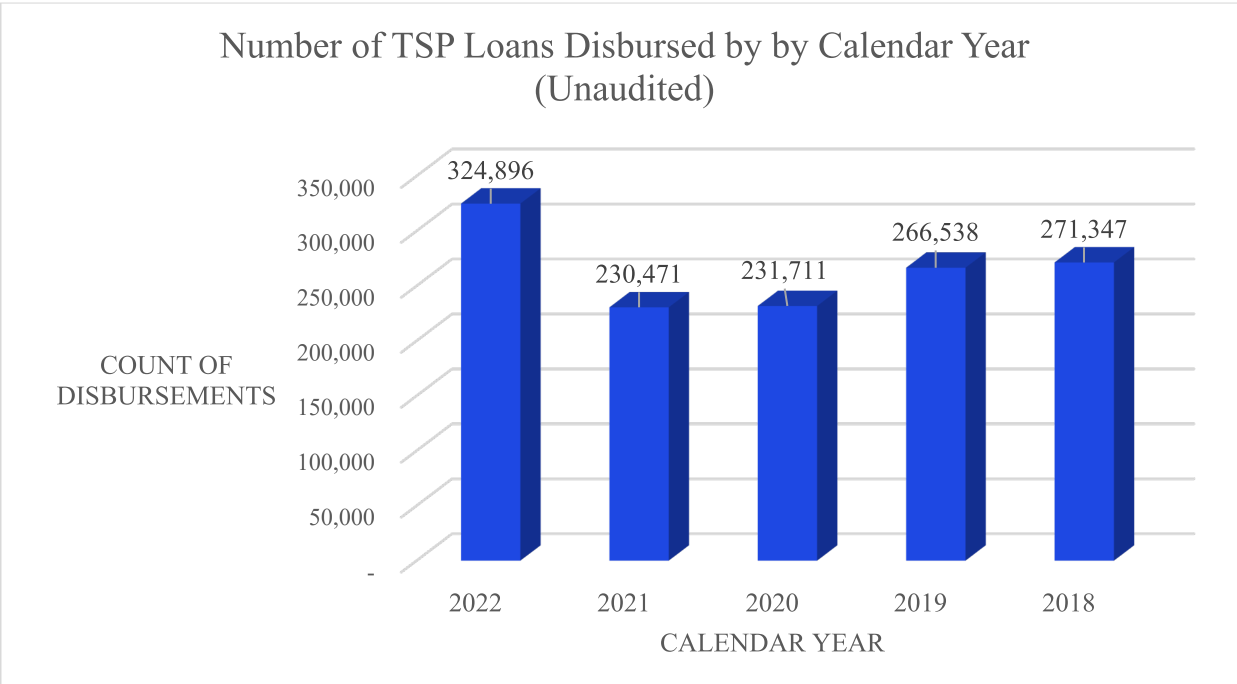
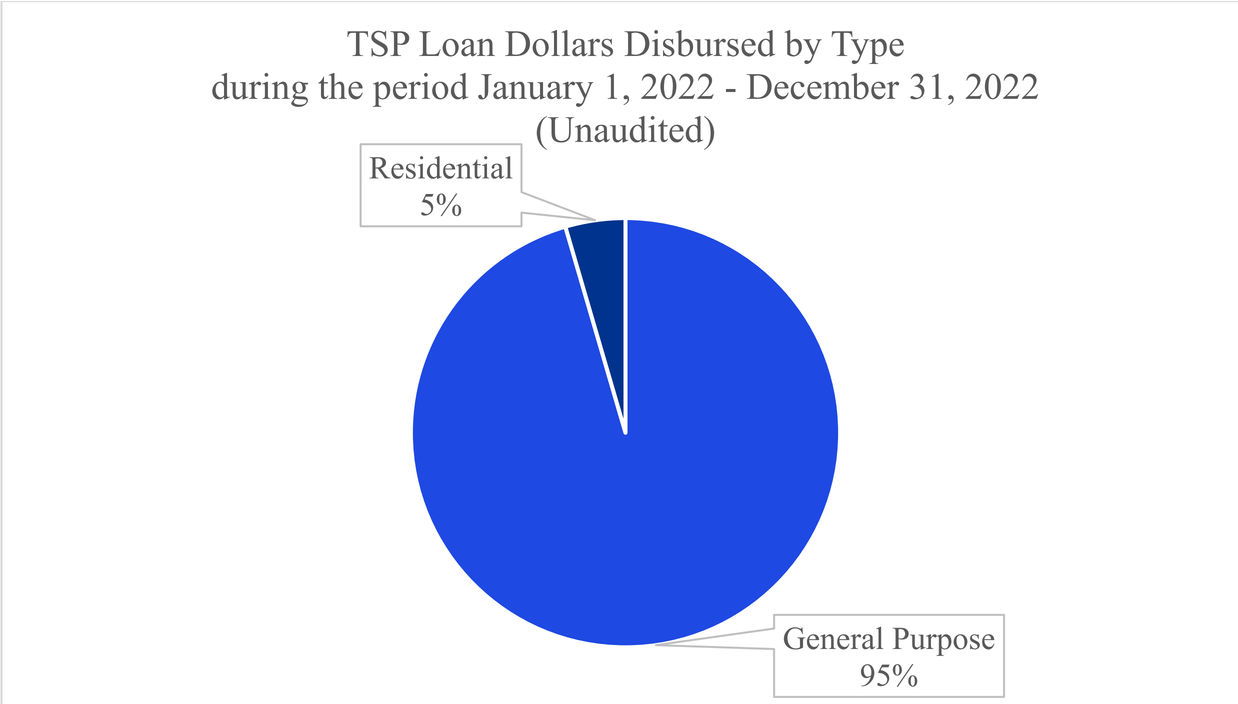


Exhibit I-3 on the next page illustrates the percentage of loan dollars disbursed by loan type for calendar year 2022[redacted]. The higher percentage of the two loan types, in terms of both dollars and number, is for general purpose loans. In calendar year 2022, approximately $3.5 billion in general purpose loans were disbursed, which represented 95 percent of total loan disbursements. This percentage of general purpose loans is higher than in calendar year 2021 as a result of a change to the CFR that allowed participants to take out two general purpose loans beginning in June 2022.

[redacted]

Exhibit I-3


TSP Loan Dollars Disbursed by Type
during the period January 1, 2022 - December 31, 2022
(Unaudited)
Residential
5%
General Purpose
95%

II. OBJECTIVES, SCOPE, AND METHODOLOGY

A. Objectives

The U.S. Department of Labor Employee Benefits Security Administration (EBSA) engaged KPMG LLP to conduct a performance audit of the Thrift Savings Plan (TSP) 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) and its vendor 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 United States Code Title 5, Sections 8433(g) and 8435(e)(g) (hereinafter referred to as FERSA) and Code of Federal Regulations Title 5, Parts 1655.2, 1655.4, 1655.5, 1655.6, 1655.7, 1655.9, 1655.12, 1655.13(a-d), 1655.14(a-f), 1655.15(a-d), 1655.16(a-c), 1655.17(a-b), 1655.18(a-c), 1655.19, 1655.20(a)(e-f), and 1655.21 (hereinafter referred to as Agency regulations); and

- Assess the status of the prior EBSA TSP open recommendation reported in *Performance Audit of the Thrift Savings Plan Loans Process,* dated July 20, 2021.

B. Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the American Institute of Certified Public Accountants' *Standards for Consulting Services*, using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was June 1, 2022, through January 31, 2023. We performed the audit in four phases: (1) planning, (2) arranging for engagement with the Agency, (3) testing and interviewing, and (4) report writing.

During the planning phase, team members developed a collective understanding of the activities and controls associated with the applications, processes, and personnel involved with the TSP 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, participated in process walk-throughs, and designed and performed tests of controls[9,10] and compliance. Our performance audit procedures included using random attribute sampling to select the following samples related to TSP loans for the period June 1, 2022, through January 31, 2023, which we used to determine if the Agency processed loan-related transactions in a manner that complied with FERSA and Agency regulations:

- Loans disbursed during the period of June 1, 2022, through January 31, 2023
- Loan payments received during the period of June 1, 2022, through January 31, 2023
- Participants to whom a second loan was disbursed while another loan was outstanding during the period of June 1, 2022, through January 31, 2023
- Loans paid in full during the period of June 1, 2022, through January 31, 2023
- Additional loan payments (prepayments) received during the period of June 1, 2022, through January 31, 2023
- Participants for whom a taxable distribution was declared during the period of June 1, 2022, through December 31, 2022
- Participants with loans who entered non-pay status during the period of June 1, 2022, through January 31, 2023
- Participants with loans which were approaching default during the period of June 1, 2022, through January 31, 2023
- Participants with loans who entered non-pay status during the period of June 1, 2021, through January 31, 2022, and who had been in non-pay status for more than one year during the period of June 1, 2022, through January 31, 2023
- Loans re-amortizations during the period of June 1, 2022, through January 31, 2023

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[9] We tested certain information technology (IT) system edit checks and system configurations related to the loans process subsequent to the scope period and in a test environment due to timing and availability of required personnel. The Agency represented that such edit checks and system configurations were functionally and technically the same as those designed and operating in production environment from June 1, 2022, through January 31, 2023. In addition, we tested the requirements underlying the edit checks and system configurations in our compliance procedures.

[10] We tested certain IT application controls in the Converge system related to the loans process. The scope of our audit did not include the testing of general IT controls that support the consistent and effective functioning of those IT application controls by maintaining the continued proper operation of the Converge system.

- Daily loan disbursements reconciliations during the period of June 1, 2022, through January 31, 2023
- Daily outstanding loans reconciliations during the period of June 1, 2022, through January 31, 2023
- Daily loan payments reconciliations during the period of June 1, 2022, through January 31, 2023

We conducted these test procedures remotely in coordination with personnel primarily from the Agency's headquarters in Washington, DC and its vendor's headquarters in Arlington, VA. 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 are defined in EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes USC Title 5, Chapter 84, and the 5 CFR Chapter VI.

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

III. FINDINGS AND RECOMMENDATIONS

A. Introduction

We performed procedures related to the Thrift Savings Plan (TSP) 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 June 1, 2022, through January 31, 2023. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel, reviewing key reports and documentation (Appendix B), and observing selected procedures.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period June 1, 2022, through January 31, 2023, the Agency and its vendor 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. However, we noted internal control weaknesses in certain areas that could adversely affect the TSP loans process.

As a result of our compliance testing, we did not identify any instances of noncompliance with applicable provisions of United States Code Chapter 5, Sections 8433(g), 8435(e), or 8435(g); or Code of Federal Regulations (CFR) Title 5, Parts 1655.2, 1655.4, 1655.5, 1655.6, 1655.7, 1655.9, 1655.12, 1655.13(a-d), 1655.14(a)(c-d), 1655.15(b-d), 1655.16(b-c), 1655.17(a-b), 1655.18(a-c), 1655.19, 1655.20(a)(e-f), or 1655.21. However, we did identify instances of noncompliance with certain elements of 5 CFR 1655.14(b)(e-f), 1655.15(a), and 1655.16(a) as described in recommendation nos. 2023-03, 2023-04, 2023-05, 2023-06, and 2023-07 in Section III.C.

We present 11 new findings and 16 related recommendations, outlined in Section III.C, related to the TSP loans process, 12 of which address fundamental controls. Fundamental control findings and recommendations address significant[11] 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

[11] *Government Auditing Standards* section 8.15 defines significance in the context of a performance audit.

fundamental controls. These recommendations are intended to strengthen the TSP loans process. The Agency should review and consider these recommendations for timely implementation. The Agency's response to these recommendations is included as an appendix within this report (Appendix A).

We also reviewed one prior U.S. Department of Labor Employee Benefits Security Administration (EBSA) recommendation related to the TSP loans process to determine its current status. Section III.B documents the status of the prior recommendation. In summary, the recommendation has been implemented and closed.

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

B. Finding and Recommendation from Prior Reports

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

2021 TSP Loans Process Recommendation No. 1:

Title:	Incomplete and Inaccurate Review of Outstanding Loans Reconciliation
Original 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.
Reason for Recommendation:	During our 2021 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 [redacted] for which there was no evidence of peer review, and [redacted] 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.

Status: **Implemented.**

During our current year performance audit, we noted that the Agency held additional training with control operators to clarify procedures and requirements for performing the Outstanding Loans Reconciliation in September 2021. Additionally, we obtained and inspected the [redacted], and noted it included the requirement for performing and documenting peer review of the reconciliation package. We also performed testwork over the Outstanding Loans Reconciliation and determined if peer review was performed accurately and appropriately documented in the reconciliation package, noting no exceptions.

Disposition: **Recommendation Closed.**

C. 2023 Findings and Recommendations

While conducting our performance audit over the TSP loans process, we identified 11 new findings and developed 16 related recommendations. EBSA requests appropriate and timely action for the recommendations.

FUNDAMENTAL CONTROL FINDINGS AND RECOMMENDATIONS

<u>2023-01 and 2023-02: Ineffective Loan Initiation Controls</u>

During our test of design and implementation of internal controls over the loan initiation process, we noted the following:

- The Agency's vendor did not have a consistent control in place based on documented criteria to confirm that the initial review of primary residence loan applications was performed in accordance with policies and procedures prior to approving the loan request.
- The Agency's vendor did not design and implement appropriate segregation of duties controls in the TSP recordkeeping system (TSP system). Specifically, the user roles were not configured to restrict users outside of the personnel who had received technical training on the loan initiation process from approving primary residence loan requests.

The deficiency occurred because the Agency's vendor did not perform a sufficient risk assessment to identify risks in the approval of primary residence loan requests and design control activities in response, including implementing segregation of duties.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states:

> **7.04:** Management considers all significant interactions within the entity and with external parties, changes within the entity's internal and external environment, and other internal and external factors to identify risks throughout the entity…Management considers these factors at both the entity and transaction levels to comprehensively identify risks that affect defined objectives.

10.03: 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.

10.03 *Segregation of duties*: Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

1. **The Agency should require its vendor to design, document, and implement a secondary review process over primary residence loan applications and supporting documentation that is based on established criteria before the loan request is approved.**

2. **The Agency should require its vendor to design and implement segregation of duties controls to limit the ability to approve primary residence loan requests to individuals who have completed the requisite training.**

Without sufficient controls in place over the loan initiation process, an increased risk exists that loans are processed inaccurately, without appropriate supporting documentation, or for participants that are ineligible based on the requested parameters.

<u>2023-03, 2023-04, and 2023-05: Deficiencies Related to Loan Re-amortizations</u>

The Agency and its vendor did not have sufficient controls in place over the processing of loan re-amortizations. Specifically, in samples of [redacted] loans that were re-amortized during the scope period and [redacted] loans that entered nonpay status in the year prior to our scope period, we identified exceptions in [redacted] loans, as follows:

- [redacted] for which the participant's return from nonpay status was not recorded in the TSP system as of the end of the scope period, over seven months after the employing agency certified the participant's TSP-41, *Notification to TSP of Nonpay Status;*
- [redacted] that were not re-amortized after the employee reached 12 months in nonpay status, [redacted] of which were related to the participant being ahead on scheduled payments at the time the loan was to be re-amortized;

- [redacted] that were re-amortized, on average, three months after the participant reached 12 months in nonpay status;
- [redacted] that were automatically re-amortized upon conversion to the new TSP system;
- [redacted] for which the Agency and its vendor did not send the participant a notice to communicate the loan re-amortization and new payment amount; and
- [redacted] for which the Agency and its vendor did not provide sufficient documentation to support the calculation of the new periodic loan repayment amount resulting from the re-amortization.

The deficiency occurred because the Agency and its vendor did not perform a sufficient risk assessment to identify risks related to the nonpay status and re-amortization processes and design ongoing monitoring controls to confirm the effective operation of existing automated controls. Additionally, the TSP system was configured to schedule the automated loan re-amortization process upon the participant's return from nonpay status or 12 months after the participant began nonpay status, whichever occurs first. A configuration error caused the cancellation of the re-amortization process if the participant was ahead on their loan payments; such loans only re-amortized once the participant missed two loan payments and were flagged as delinquent.

In addition, the Agency and its vendor did not perform a sufficient risk assessment to identify risks related to automated TSP system re-amortization calculations, including the retention and accessibility of inputs to such calculations maintained in the new TSP system, and design procedures in response to those risks.

Internal Revenue Code Section 72(p)(2)(C) states:

> **Requirement of level amortization.** Except as provided in regulations, this paragraph shall not apply to any loan unless substantially level amortization of such loan (with payments not less frequently than quarterly) is required over the term of the loan.

26 CFR 1.72(p)-1(A-9)(a) states:

> The level amortization requirement of section 72(p)(2)(C) does not apply for a period, not longer than one year (or such longer period as may apply under section 414(u)), that a participant is on a bona fide leave of absence, either without pay from the employer or at a rate of pay (after income and employment tax withholding) that is less than the amount of the installment payments required under the terms of the loan. However, the loan (including

interest that accrues during the leave of absence) must be repaid by the latest date permitted under section 72(p)(2)(B) (e.g., the suspension of payments cannot extend the term of the loan beyond 5 years, in the case of a loan that is not a principal residence plan loan) and the amount of the installments due after the leave ends (or, if earlier, after the first year of the leave or such longer period as may apply under section 414(u)) must not be less than the amount required under the terms of the original loan.

5 CFR 1655.14(f) states:

> Interest will accrue on all missed payments and will be included in the calculation of any deemed distribution subsequently declared in accordance with § 1655.15(a). Interest will also accrue on payments missed while a participant is in nonpay status and on any deemed distribution until it is repaid in full.

5 CFR 1655.16(a) states:

> When a participant's pay cycle changes for any reason, he or she must notify the TSP record keeper of the change in the form and manner prescribed by the TSP record keeper. Upon notification, the participant's loan will be re-amortized to adjust the scheduled payment to an equivalent amount in the new pay cycle. If the new pay cycle results in fewer payments per year and the participant does not re-amortize the loan, the loan may be declared a deemed distribution pursuant to § 1655.15(a)(1).

5 CFR 1655.15(a) states:

> The TSP record keeper will ensure that all requirements set forth in section 72(p) of the Internal Revenue Code and the regulations promulgated thereunder with respect to deemed distributions are satisfied.
>
> (1) The TSP record keeper will declare the entire unpaid balance of an outstanding loan (including interest) to be a deemed distribution if:…
>
> (iii) A participant is in a confirmed nonpay status for a period of one year or more, has not advised the TSP record keeper that he or she is serving on active military duty, and payments are not resumed after the participant is notified the loan has been re-amortized.

GAO's *Standards for Internal Control in the Federal Government* states:

> **7.04:** Management considers all significant interactions within the entity and with external parties, changes within the entity's internal and external environment, and other internal and external factors to identify risks throughout the entity…Management considers these factors at both the entity and transaction levels to comprehensively identify risks that affect defined objectives.
>
> **10.03:** 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.
>
> **10.06:** Automated control activities are either wholly or partially automated through the entity's information technology…If the entity relies on information technology in its operations, management designs control activities so that the information technology continues to operate properly.
>
> **12.03:** 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 also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.
>
> **13.04 and 13.05:** Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements…Management processes the obtained data into quality information that supports the internal control system.
>
> **16.05:** 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.

3. **The Agency should require its vendor to design and implement controls to support the accurate and timely re-amortization of loans in accordance with applicable regulations.**

4. **The Agency should require its vendor to enhance existing documentation to clarify the design of automated system calculations, including sources of data.**

5. **The Agency should require its vendor to design and implement monitoring controls over the consistent operation of automated controls related to loan re-amortizations.**

Without sufficient controls in place over the timely and accurate processing of loan re-amortizations and subsequent communications to the participants, an increased risk exists that loans improperly accrue additional interest or are improperly flagged for delinquency.

<u>2023-06 and 2023-07: Deficiencies Related to Delinquency Identification and Repayments</u>

The Agency's vendor did not have sufficient controls in place over the timely identification and accurate curing of delinquent loan balances. Specifically, in samples of [redacted] loans that entered delinquency status and [redacted] deemed distributions during the scope period, we identified exceptions in [redacted] items, as follows:

- [redacted] loans for which the TSP system applied recurring payroll payments to participants' past due loan balances, which improperly cured the loan's delinquency status.
- [redacted] loans for which the TSP system did not flag the loan as delinquent and notify the participant of the delinquency by the month following the participant's second missed payment.

The deficiency occurred because the Agency's vendor did not perform a sufficient risk assessment to identify risks in the loan delinquency and deemed distribution processes, including identifying, communicating, and curing delinquent loans in accordance with applicable regulations, and design procedures in response to those risks.

5 CFR 1655.14(e) states:

> In the case of a participant who has not separated from Government service, if a payment is not made when due, the TSP record keeper will notify the participant of the missed payment and the participant must make up the payment in full. The participant's make-up payment must be in the form of a check, guaranteed funds, or a one-time payment via loan direct debit from his or her personal savings or checking account. If the participant does not make up all missed payments by the end of the calendar quarter following the calendar

quarter in which the first payment was missed, the TSP record keeper will declare the loan to be a deemed distribution in accordance with § 1655.15(a).

5 CFR 1655.1 states:

Guaranteed funds means a cashier's check, money order, certified check (i.e., a check certified by the financial institution on which it is drawn), cashier's draft, or treasurer's check from a credit union.

GAO's *Standards for Internal Control in the Federal Government* states:

7.04: Management considers all significant interactions within the entity and with external parties, changes within the entity's internal and external environment, and other internal and external factors to identify risks throughout the entity…Management considers these factors at both the entity and transaction levels to comprehensively identify risks that affect defined objectives.

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

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

16.05: 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.

6. The Agency should require its vendor to design and implement controls to support the accurate application of payments against delinquent loan balances in accordance with applicable regulations.

7. **The Agency should require its vendor to design and implement controls to support the timely identification of delinquent loans and communication of the delinquency to the participant in accordance with applicable regulations.**

Without sufficient controls in place over the application of payments to cure delinquent loan balances, an increased risk exists that loans will not be declared a deemed distribution timely in accordance with applicable regulations. Additionally, without sufficient controls in place over the timely identification and communication of loan delinquencies, an increased risk exists that loans will be declared deemed distributions without giving the participant appropriate notice to cure the delinquency.

<u>2023-08, 2023-09, 2023-10, and 2023-11: Insufficient Documentation for Deemed Distribution Amounts</u>

The Agency and its vendor did not have sufficient controls in place to maintain documentation to support the calculation of deemed distributions. Specifically, we selected a sample of [redacted] deemed distributions that occurred during the audit scope period and identified [redacted] exceptions in [redacted] of these distributions, as follows:

- [redacted] for which the Agency and its vendor provided the incorrect Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, to support the deemed distribution related to the selected loan. The documentation provided was related to the other types of distributions (e.g., total distributions) declared during the same tax year.
- [redacted] for which the gross distribution amount per the provided Form 1099-R(s) did not agree to the gross distribution amount per the TSP system.
- [redacted] for which the Agency and its vendor did not provide documentation to evidence the proportions of the Traditional and Roth balances applied to the loan at initiation.
- [redacted] for which the Agency and its vendor did not provide documentation to evidence the accuracy of the tax-exempt portion of the deemed distribution.
- [redacted] for which we noted that the allocation of the taxable and non-taxable balances on the Form 1099-R did not agree to the proportion of Roth and Traditional balances allocated to the loan at initiation.

The deficiency occurred because the Agency and its vendor did not perform a sufficient risk assessment to identify risks related to the conversion of historical participant account activity and balances during the implementation of the new TSP system and to ongoing retention and accessibility of documentation, inputs to automated system calculations, and historical activity maintained in the new TSP system, and design procedures in response to those risks.

GAO's *Standards for Internal Control in the Federal Government* states:

> **7.04:** Management considers all significant interactions within the entity and with external parties, changes within the entity's internal and external environment, and other internal and external factors to identify risks throughout the entity…Management considers these factors at both the entity and transaction levels to comprehensively identify risks that affect defined objectives.
>
> **10.02:** Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system.
>
> **10.03** ***Appropriate documentation of transactions and internal control*****:** Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination…Documentation and records are properly managed and maintained.
>
> **10.06:** Automated control activities are either wholly or partially automated through the entity's information technology…If the entity relies on information technology in its operations, management designs control activities so that the information technology continues to operate properly.
>
> **13.04 and 13.05:** Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements…Management processes the obtained data into quality information that supports the internal control system.
>
> **16.05:** 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.

8. **The Agency should require its vendor to design and implement controls over the accurate calculation of deemed distributions and preparation of Form 1099-Rs.**

9. **The Agency should require its vendor to enhance existing documentation to clarify the design of automated system calculations, including sources of data for calculations.**

10. **The Agency should require its vendor to design and implement monitoring controls over the consistent operation of automated controls related to deemed distributions.**

11. **The Agency should require its vendor to design and implement controls over the retention of supporting documentation and underlying data for deemed distributions and participant balances.**

Without sufficient controls in place over the accuracy of deemed distributions and Form 1099-Rs, an increased risk exists that an inaccurate taxable distribution will be reported to the participant and the Internal Revenue Service.

2023-12: Insufficient Documentation for Participant Status Changes and Loan Disbursements

The Agency and its vendor did not have controls in place to maintain documentation related to participant nonpay status and loan disbursements. Specifically, we selected a sample of [redacted] participants who entered nonpay status during the year prior to the audit scope period, [redacted] loan disbursements that occurred during the scope period, and [redacted] instances of loan re-amortizations that occurred during the scope period. Of these sample items, we identified exceptions in [redacted] loans, as follows:

- [redacted] in which the Agency and its vendor did not provide the TSP-41, *Notification to TSP of Nonpay Status*, that evidenced the start date of the participant's nonpay status.
- [redacted] in which the Agency and its vendor did not provide the Loan Promissory Notice – Thrift Savings Plan that evidenced the loan agreement and related parameters.

The deficiency occurred because the Agency and its vendor did not perform a sufficient risk assessment to identify risks related to the retention of historical documentation during the implementation of the new TSP system and to the retention of documentation created post-implementation and design procedures in response to those risks.

GAO's *Standards for Internal Control in the Federal Government* states:

> **7.04:** Management considers all significant interactions within the entity and with external parties, changes within the entity's internal and external environment, and other internal and external factors to identify risks throughout the entity…Management considers these factors at both the entity and transaction levels to comprehensively identify risks that affect defined objectives.
>
> **10.02:** Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system.
>
> **10.03** ***Appropriate documentation of transactions and internal control*****:** Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination…Documentation and records are properly managed and maintained.

12. The Agency should require its vendor to retain supporting documentation for participant status changes and loan disbursements.

Without proper documentation to support participant status changes, an increased risk exists that participant status changes are recorded inappropriately or inaccurately, which may result in loans inappropriately accruing interest, being identified as delinquent, or being declared a deemed distribution. Additionally, without proper documentation to support loan disbursements, an increased risk exists that the Agency and its vendor would not have evidence outside of the TSP system to respond to participant inquiries or identify and resolve discrepancies related to the loan.

OTHER CONTROL FINDINGS AND RECOMMENDATIONS

<u>2023-13 Deficiency in Timely Loan Disbursements</u>

The Agency and its vendor did not have sufficient controls in place to consistently support timely loan disbursements. Specifically, we selected a sample of [redacted] loan disbursements and noted [redacted]

[redacted] in which the participant's loan was disbursed 64 days after initiation, and the Agency began collecting payments from the participant prior to the loan disbursement.

The deficiency occurred because the Agency and its vendor did not perform a sufficient risk assessment to identify risks related to the timely disbursement of loans during the implementation of the new TSP system and design monitoring procedures in response to those risks.

GAO's *Standards for Internal Control in the Federal Government* states:

> **7.04:** Management considers all significant interactions within the entity and with external parties, changes within the entity's internal and external environment, and other internal and external factors to identify risks throughout the entity…Management considers these factors at both the entity and transaction levels to comprehensively identify risks that affect defined objectives.
>
> **16.05:** 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.

13. The Agency should require its vendor to design and implement monitoring controls over the timely disbursement of loans.

Without sufficient monitoring controls in place over the loan disbursements process, an increased risk exists that participants may not receive loan disbursements on a timely basis.

2023-14 and 2023-15: Inconsistent Implementation of Accounting Reconciliations

During our test of design and implementation over the daily accounting reconciliations performed by the Agency's vendor, we noted certain deficiencies related to the documentation and peer review of the reconciliations. Specifically, we reviewed a sample of reconciliation packages for TSP Recon 1: Non-Payroll Loan Payments and Rollover-In Reconciliations, TSP Reconciliation 2 and 2c: Agency Payroll Reconciliation, and TSP Recon 3: Disbursements Reconciliation, noting the following:

- For TSP Recon 2c, [redacted] sample items included unresolved variances that were identified as many as seven months prior. The Agency's vendor separately stated that these variances were the result of post-conversion activities and were being addressed through a separate process. However, this information was not documented within the reconciliations to evidence the status of the open variances.
- For TSP Recon 1, 2, 2c and 3, we noted [redacted] sample items, respectively, that did not include sufficient documentation or explanations that evidenced the preparer researched and took steps to resolve each identified variance at the participant level.

The deficiency occurred because the Agency's vendor did not design or implement policies and procedures at a level of precision to support the timely resolution of variances and the consistent performance, documentation, and review of reconciliations. Additionally, the Agency's vendor did not design and implement monitoring procedures that would detect personnel not performing or reviewing reconciliations per policies and procedures.

GAO's *Standards for Internal Control in the Federal Government* states:

> **10.02:** Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system.
>
> **10.03:** 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.
>
> **12.03:** 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 also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.
>
> **16.05:** 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.

14. The Agency should require its vendor to enhance existing policies and procedures to clarify requirements for preparing and reviewing the daily reconciliations, including

documentation of research and resolution of variances and the timeframe for resolution of variances.

15. **The Agency should require its vendor to design and implement monitoring controls over the performance of daily reconciliations in accordance with established policies and procedures.**

Without sufficient controls in place over the reconciliation of loan transactions, an increased risk exists that the TSP system and Agency financial reports are inaccurate.

<u>2023-16: Deficiency in the Processing of Non-Payroll Loan Payments</u>

The Agency and its vendor did not have sufficient controls in place over the timely processing of non-payroll loan payments. Specifically, we selected a sample of [redacted] non-payroll loan payments that occurred during the audit scope period and noted [redacted] in which the Agency and its vendor did not process the check within 48 business hours of receipt.

The deficiency occurred because the Agency and its vendor did not perform a sufficient risk assessment to identify risks in the non-payroll payment process and design ongoing monitoring controls to confirm the effective operation of existing automated controls.

[redacted]

[redacted]

GAO's *Standards for Internal Control in the Federal Government* states:

7.04: Management considers all significant interactions within the entity and with external parties, changes within the entity's internal and external environment, and other internal and external factors to identify risks throughout the entity…Management considers these factors at both the entity and transaction levels to comprehensively identify risks that affect defined objectives.

16.05: 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.

16. **The Agency should require its vendor to design and implement monitoring controls over the timely processing of non-payroll loan payments.**

Without consistent controls over the processing of non-payroll loan payments, an increased risk exists that payments will not be processed accurately or timely and that an accurate refund will not be generated if a participant overpays a loan balance.

FUNDAMENTAL CONTROL FINDING WITHOUT A RECOMMENDATION

Timeliness of Deemed Distributions (Pre-Converge)

Prior to the implementation of the new TSP system in June 2022, the Agency did not have sufficient controls in place to timely recognize deemed distributions. Specifically, we selected a sample of [redacted] deemed distributions during our audit scope period and noted [redacted] instances in which a deemed distribution was not declared until June 30, 2022, but the first missed payment occurred in December 2021 and was not cured by March 31, 2022.

The deficiency occurred because the Agency did not perform a sufficient risk assessment to identify risks in the deemed distribution process and design ongoing monitoring controls to confirm the effective operation of existing automated controls.

5 CFR 1655.14(e) states:

> In the case of a participant who has not separated from Government service, if a payment is not made when due, the TSP record keeper will notify the participant of the missed payment and the participant must make up the payment in full. The participant's make-up payment must be in the form of a check, guaranteed funds, or a one-time payment via loan direct debit from his or her personal savings or checking account. If the participant does not make up all missed payments by the end of the calendar quarter following the calendar quarter in which the first payment was missed, the TSP record keeper will declare the loan to be a deemed distribution in accordance with §1655.15(a).

We did note that this deficiency existed prior to the implementation of the new recordkeeping system. Therefore, we did not consider a recommendation necessary related to this finding.

OTHER CONTROL FINDINGS WITHOUT A RECOMMENDATION

Deficiencies in Reporting Changes to Employee Status

During our audit procedures, we selected a sample of [redacted] loan re-amortizations and [redacted] participants with loans that entered nonpay status during the year prior to the audit scope period. While testing these samples, we noted [redacted] instances where the participant's loan was re-amortized, on average, two months after participants separated from their employing agency. Additionally, we noted [redacted] instances where the participant's loan was re-amortized, on average, three months after participants either started or returned from nonpay status.

This matter occurred because the participant's employing agency did not submit the participant's TSP-41, *Notification to TSP of Nonpay Status*, or notification of separation to the Agency timely. As a result of the above condition, [redacted] was able to obtain a loan while in nonpay status. Additionally, without timely notification of employee status changes, an increased risk exists that loans will inappropriately fall into delinquency or participants may continue to have loan payments deductions when their payments should be suspended.

5 CFR 1655.16(a) states:

> When a participant's pay cycle changes for any reason, he or she must notify the TSP record keeper of the change in the form and manner prescribed by the TSP record keeper. Upon notification, the participant's loan will be re-amortized to adjust the scheduled payment to an equivalent amount in the new pay cycle. If the new pay cycle results in fewer payments per year and the participant does not re-amortize the loan, the loan may be declared a deemed distribution pursuant to § 1655.15(a)(1).

The Thrift Savings Plan booklet, *Loans* (December 2022), Appendix 1: How to Start and Stop Nonpay Status states:

> Ask your agency or service to submit one of the following to us when your nonpay status begins:

- Form TSP-41, Notification to TSP of Nonpay Status…

It is your responsibility to ensure that we receive the proper documentation (including whether your nonpay status is due to military service or other reasons) immediately after you enter nonpay status… If we do not receive proper notice of your nonpay status, you must send loan payments directly to us or risk being taxed on the balance of your loan.

For these [redacted] sample items, we determined that the Agency timely processed the TSP-41 and separation data once they were received from the employing agency. Therefore, we did not consider a recommendation at the Agency level necessary related to this finding.

<u>Deficiencies in Initiating Payroll Payments</u>

During our audit procedures, we selected a sample of [redacted] loan disbursements and noted [redacted] instances in which the participant's employing agency did not initiate payroll payments on behalf of the participant within 60 calendar days of loan initiation. On average for these [redacted] loans, the employing agency did not send the first payment until 70 days after loan initiation, more than 56 days after the Agency notified the employing agency of the loan initiation and payment amount due.

This matter occurred because the Agency depends on each separate employing agency's internal processes to initiate payroll deductions timely upon receiving notification from the Agency. Per 5 CFR 1655.14(c), the initial payment on a loan is due on or before the 60th day following the loan issue date.

We did determine that the Agency notified the employing agencies of the loan and the repayment amount within 14 days (approximately one pay period) of loan initiation, which we considered reasonable. Therefore, we did not consider a recommendation at the Agency level necessary related to this finding.

D. Other Results

While conducting our performance audit over the TSP loans process, we made the following observation relevant to our audit objectives.

We requested the Agency and its vendor provide documentation to support key transactions and balances in the loans process. However, we noted that certain documentation was not provided on a timely basis. For example, during our audit, complete populations of loan data were provided, on average, three weeks after the original due date. Additionally, initial documentation for certain compliance sample items was not provided until over three weeks after the original due date.

These delays primarily occurred because of the implementation of a new recordkeeping system at the beginning of our scope period and related key changes to the loans process. As a result of these changes, the Agency and its vendor required additional time to determine what documentation would fulfil our requests. Additionally, because the Agency and its vendor decided to not migrate certain historical data from the prior TSP system into the new recordkeeping system, they required additional time to locate and provide the requested documentation. By the end of our fieldwork, the Agency and its vendor provided all requested audit documentation except for the items noted in Section III.C.

E. Summary of Open Recommendations

<u>2023 RECOMMENDATIONS</u>

RECOMMENDATIONS TO ADDRESS FUNDAMENTAL CONTROLS

Ineffective Loan Initiation Controls

1. The Agency should require its vendor to design, document, and implement a secondary review process over primary residence loan applications and supporting documentation that is based on established criteria before the loan request is approved.
2. The Agency should require its vendor to design and implement segregation of duties controls to limit the ability to approve primary residence loan requests to individuals who have completed the requisite training.

Deficiencies Related to Loan Re-amortizations

3. The Agency should require its vendor to design and implement controls to support the accurate and timely re-amortization of loans in accordance with applicable regulations.
4. The Agency should require its vendor to enhance existing documentation to clarify the design of automated system calculations, including sources of data.
5. The Agency should require its vendor to design and implement monitoring controls over the consistent operation of automated controls related to loan re-amortizations.

Deficiencies Related to Delinquency Identification and Repayments

6. The Agency should require its vendor to design and implement controls to support the accurate application of payments against delinquent loan balances in accordance with applicable regulations.
7. The Agency should require its vendor to design and implement controls to support the timely identification of delinquent loans and communication of the delinquency to the participant in accordance with applicable regulations.

Insufficient Documentation for Deemed Distributions Amounts

8. The Agency should require its vendor to design and implement controls over the accurate calculation of deemed distributions and preparation of Form 1099-Rs.
9. The Agency should require its vendor to enhance existing documentation to clarify the design of automated system calculations, including sources of data for calculations.

10. The Agency should require its vendor to design and implement monitoring controls over the consistent operation of automated controls related to deemed distributions.
11. The Agency should require its vendor to design and implement controls over the retention of supporting documentation and underlying data for deemed distributions and participant balances.

Insufficient Documentation for Participant Status Changes and Loan Disbursements

12. The Agency should require its vendor to retain supporting documentation for participant status changes and loan disbursements.

RECOMMENDATIONS TO ADDRESS OTHER CONTROLS

Deficiency in Timely Loan Disbursements

13. The Agency should require its vendor to design and implement monitoring controls over the timely disbursement of loans.

Inconsistent Implementation of Accounting Reconciliations

14. The Agency should require its vendor to enhance existing policies and procedures to clarify requirements for preparing and reviewing the daily reconciliations, including documentation of research and resolution of variances and the timeframe for resolution of variances.
15. The Agency should require its vendor to design and implement monitoring controls over the performance of daily reconciliations in accordance with established policies and procedures.

Deficiency in the Processing of Non-Payroll Loan Payments

16. The Agency should require its vendor to design and implement monitoring controls over the timely processing of non-payroll loan payments.

AGENCY'S RESPONSE

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

THRIFT
SAVINGS
PLAN

August 30, 2023

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

Dear Michael:

This is in response to KPMG's email dated August 8, 2023, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Loans Process, dated September 2023. 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 over the
Thrift Savings Plan Loans Process

2023 FUNDAMENTAL CONTROL FINDINGS AND RECOMMENDATIONS

2023-01: Ineffective Loan Initiation Controls

Finding: During our test of design and implementation of internal controls over the loan initiation process, we noted the following:

- The Agency's vendor did not have a consistent control in place based on documented criteria to confirm that the initial review of primary residence loan applications was performed in accordance with policies and procedures prior to approving the loan request.
- The Agency's vendor did not design and implement appropriate segregation of duties controls in the TSP recordkeeping system (TSP system). Specifically, the user roles were not configured to restrict users outside of the personnel who had received technical training on the loan initiation process from approving primary residence loan requests.

Recommendation: The Agency should require its vendor to design, document, and implement a secondary review process over primary residence loan applications and supporting documentation that is based on established criteria before the loan request is approved.

Agency Response:

The Agency does not concur. Once the primary residence loan application form and supporting documentation are received by the vendor, the documents are scanned into the system and reviewed by the admin services team. A subset of those that are considered complex are sent to Tier 2 for additional review. Furthermore, the audit report does not provide evidence that the design, implementation, and or execution of the current loan approval process is ineffective warranting additional controls, or that the vendor is not following established policy.

2023-02: Ineffective Loan Initiation Controls

Finding: During our test of design and implementation of internal controls over the loan initiation process, we noted the following:

- The Agency's vendor did not have a consistent control in place based on documented criteria to confirm that the initial review of primary residence loan applications was performed in accordance with policies and procedures prior to approving the loan request.
- The Agency's vendor did not design and implement appropriate segregation of duties controls in the TSP recordkeeping system (TSP system). Specifically, the user roles were not configured to restrict users outside of the personnel who had received technical training on the loan initiation process from approving primary residence loan requests.

Recommendation: The Agency should require its vendor to design and implement segregation of duties controls to limit the ability to approve primary residence loan requests to individuals who have completed the requisite training.

Agency Response:

The Agency does not concur. [redacted]

Operations team members [redacted] are cross trained in all aspect of Loan transactional processing (including primary residence loans) in accordance with existing procedures to establish understanding prior to the initiation, approval or completion of any procedural steps involved in loan transactional processing. The training, which includes a detailed standard operating procedure and supplemental training materials, ensures the Converge Operations team can sustain operations and provide business continuity in unpredictable circumstances such as leave of absence as seen during the pandemic, and other events impacting resource availability. [redacted]

2023-03: Deficiencies Related to Loan Re-amortizations

Finding: The Agency and its vendor did not have sufficient controls in place over the processing of loan re-amortizations. Specifically, in samples of [redacted] loans that were re-amortized during the scope period and [redacted] loans that entered nonpay status in the year prior to our scope period, we identified exceptions in [redacted] loans, as follows:

- [redacted] for which the participant's return from nonpay status was not recorded in the TSP system as of the end of the scope period, over seven months after the employing agency certified the participant's TSP-41, Notification to TSP of Nonpay Status;
- [redacted] that were not re-amortized after the employee reached 12 months in nonpay status, [redacted] of which were related to the participant being ahead on scheduled payments at the time the loan was to be re-amortized;
- [redacted] that were re-amortized, on average, three months after the participant reached 12 months in nonpay status;
- [redacted] that were automatically re-amortized upon conversion to the new TSP system;
- One loan for which the Agency and its vendor did not send the participant a notice to communicate the loan re-amortization and new payment amount; and
- [redacted] for which the Agency and its vendor did not provide sufficient documentation to support the calculation of the new periodic loan repayment amount resulting from the re-amortization.

Recommendation: The Agency should require its vendor to design and implement controls to support the accurate and timely re-amortization of loans in accordance with applicable regulations.

<u>Agency Response:</u>

The Agency concurs. The Agency acknowledges that there was a known system issue related to loan re-amortizations that was communicated and remediated. The Agency and its vendor will evaluate the existing controls and take necessary steps if additional controls are needed to ensure timely and accurate processing of loan re-amortizations.

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

2023-04: Deficiencies Related to Loan Re-amortizations

Finding: The Agency and its vendor did not have sufficient controls in place over the processing of loan re-amortizations. Specifically, in samples of [redacted] loans that were re-amortized during the scope period and [redacted] loans that entered nonpay status in the year prior to our scope period, we identified exceptions in [redacted] loans, as follows:

- [redacted] for which the participant's return from nonpay status was not recorded in the TSP system as of the end of the scope period, over seven months after the employing agency certified the participant's TSP-41, Notification to TSP of Nonpay Status;
- [redacted] that were not re-amortized after the employee reached 12 months in nonpay status, [redacted] of which were related to the participant being ahead on scheduled payments at the time the loan was to be re-amortized;
- [redacted] that were re-amortized, on average, three months after the participant reached 12 months in nonpay status;
- [redacted] that were automatically re-amortized upon conversion to the new TSP system;
- One loan for which the Agency and its vendor did not send the participant a notice to communicate the loan re-amortization and new payment amount; and
- [redacted] for which the Agency and its vendor did not provide sufficient documentation to support the calculation of the new periodic loan repayment amount resulting from the re-amortization.

Recommendation: The Agency should require its vendor to enhance existing documentation to clarify the design of automated system calculations, including sources of data.

<u>Agency Response:</u>

The Agency concurs. The Agency acknowledges that there are improvements needed in providing documentation to support the calculation of certain loan re-amortizations.

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

2023-05: Deficiencies Related to Loan Re-amortizations

Finding: The Agency and its vendor did not have sufficient controls in place over the processing of loan re-amortizations. Specifically, in samples of [redacted] loans that were re-amortized during the scope period and [redacted] loans that entered nonpay status in the year prior to our scope period, we identified exceptions in [redacted] loans, as follows:

- [redacted] for which the participant's return from nonpay status was not recorded in the TSP system as of the end of the scope period, over seven months after the employing agency certified the participant's TSP-41, Notification to TSP of Nonpay Status;
- [redacted] that were not re-amortized after the employee reached 12 months in nonpay status, [redacted] of which were related to the participant being ahead on scheduled payments at the time the loan was to be re-amortized;
- [redacted] that were re-amortized, on average, three months after the participant reached 12 months in nonpay status;
- [redacted] that were automatically re-amortized upon conversion to the new TSP system;
- One loan for which the Agency and its vendor did not send the participant a notice to communicate the loan re-amortization and new payment amount; and
- [redacted] [redacted] for which the Agency and its vendor did not provide sufficient documentation to support the calculation of the new periodic loan repayment amount resulting from the re-amortization.

Recommendation: The Agency should require its vendor to design and implement monitoring controls over the consistent operation of automated controls related to loan re-amortizations.

<u>Agency Response:</u>

The Agency concurs. The Agency acknowledges that monitoring controls could be implemented to ensure consistent operation of automated controls related to loan re-amortizations. The Agency and its vendor will evaluate ways to implement additional controls.

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

<u>2023-06: Deficiencies Related to Delinquency Identification and Repayments</u>

Finding: The Agency's vendor did not have sufficient controls in place over the timely identification and accurate curing of delinquent loan balances. Specifically, in samples of [redacted] loans that entered delinquency status and [redacted] deemed distributions during the scope period, we identified exceptions in [redacted] items, as follows:

- [redacted] loans for which the TSP system applied recurring payroll payments to participants' past due loan balances, which improperly cured the loan's delinquency status.

Recommendation: The Agency should require its vendor to design and implement controls to support the accurate application of payments against delinquent loan balances in accordance with applicable regulations.

<u>Agency Response:</u>

The Agency concurs. The Agency acknowledges that the CFR does not specifically address rules related to payroll loan repayments curing delinquent loans. The Agency will either update the language in the CFR or discuss operational changes needed.

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

2023-07: Deficiencies Related to Delinquency Identification and Repayments

Finding: The Agency's vendor did not have sufficient controls in place over the timely identification and accurate curing of delinquent loan balances. Specifically, in samples of [redacted] loans that entered delinquency status and [redacted] deemed distributions during the scope period, we identified exceptions in [redacted] items, as follows:

- [redacted] loans for which the TSP system did not flag the loan as delinquent and notify the participant of the delinquency by the month following the participant's second missed payment.

Recommendation: The Agency should require its vendor to design and implement controls to support the timely identification of delinquent loans and communication of the delinquency to the participant in accordance with applicable regulations.

Agency Response:

The Agency concurs. The Agency and its vendor will take the necessary steps to implement enhancements to the loan delinquency monitoring process that may include additional reporting to support the timely identification and communication of delinquent loans.

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

2023-08: Insufficient Documentation for Deemed Distribution Amounts

Finding: The Agency and its vendor did not have sufficient controls in place to maintain documentation to support the calculation of deemed distributions. Specifically, we selected a sample of [redacted] deemed distributions that occurred during the audit scope period and identified [redacted] exceptions in [redacted] of these distributions, as follows:

- [redacted] for which the Agency and its vendor provided the incorrect Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., to support the deemed distribution related to the selected loan. The documentation provided was related to the other types of distributions (e.g., total distributions) declared during the same tax year.
- [redacted] for which the gross distribution amount per the provided Form 1099-R(s) did not agree to the gross distribution amount per the TSP system.
- [redacted] for which the Agency and its vendor did not provide documentation to evidence the proportions of the Traditional and Roth balances applied to the loan at initiation.
- [redacted] for which the Agency and its vendor did not provide documentation to evidence the accuracy of the tax-exempt portion of the deemed distribution.

- [redacted] for which we noted that the allocation of the taxable and non-taxable balances on the Form 1099-R did not agree to the proportion of Roth and Traditional balances allocated to the loan at initiation.

Recommendation: The Agency should require its vendor to design and implement controls over the accurate calculation of deemed distributions and preparation of Form 1099-Rs.

Agency Response:

The Agency concurs. The Agency and its vendor will take the necessary steps to implement enhancements to the quality assurance review of Form 1099-Rs as it relates to deemed distributions.

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

2023-09: Insufficient Documentation for Deemed Distribution Amounts

Finding: The Agency and its vendor did not have sufficient controls in place to maintain documentation to support the calculation of deemed distributions. Specifically, we selected a sample of [redacted] deemed distributions that occurred during the audit scope period and identified [redacted] exceptions in [redacted] of these distributions, as follows:

- [redacted] for which the Agency and its vendor provided the incorrect Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., to support the deemed distribution related to the selected loan. The documentation provided was related to the other types of distributions (e.g., total distributions) declared during the same tax year.
- [redacted] for which the gross distribution amount per the provided Form 1099-R(s) did not agree to the gross distribution amount per the TSP system.
- [redacted] for which the Agency and its vendor did not provide documentation to evidence the proportions of the Traditional and Roth balances applied to the loan at initiation.
- [redacted] for which the Agency and its vendor did not provide documentation to evidence the accuracy of the tax-exempt portion of the deemed distribution.
- [redacted] for which we noted that the allocation of the taxable and non-taxable balances on the Form 1099-R did not agree to the proportion of Roth and Traditional balances allocated to the loan at initiation.

Recommendation: The Agency should require its vendor to enhance existing documentation to clarify the design of automated system calculations, including sources of data for calculations.

Agency Response:

The Agency concurs. The Agency acknowledges that there are improvements needed in providing documentation to support the calculation of proportions of the Traditional and Roth balances applied to loan initiations. The Agency and its vendor will evaluate ways to accomplish this so that more detailed documentation is available.

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

2023-10: Insufficient Documentation for Deemed Distribution Amounts

Finding: The Agency and its vendor did not have sufficient controls in place to maintain documentation to support the calculation of deemed distributions. Specifically, we selected a sample of [redacted] deemed distributions that occurred during the audit scope period and identified [redacted] exceptions in [redacted] of these distributions, as follows:

- [redacted] for which the Agency and its vendor provided the incorrect Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., to support the deemed distribution related to the selected loan. The documentation provided was related to the other types of distributions (e.g., total distributions) declared during the same tax year.
- [redacted] for which the gross distribution amount per the provided Form 1099-R(s) did not agree to the gross distribution amount per the TSP system.
- [redacted] for which the Agency and its vendor did not provide documentation to evidence the proportions of the Traditional and Roth balances applied to the loan at initiation.
- [redacted] for which the Agency and its vendor did not provide documentation to evidence the accuracy of the tax-exempt portion of the deemed distribution.
- [redacted] for which we noted that the allocation of the taxable and non-taxable balances on the Form 1099-R did not agree to the proportion of Roth and Traditional balances allocated to the loan at initiation.

Recommendation: The Agency should require its vendor to design and implement monitoring controls over the consistent operation of automated controls related to deemed distributions.

Agency Response:

The Agency concurs. The Agency acknowledges that monitoring controls could be implemented to ensure consistent operation of automated controls related to deemed distributions. The Agency and its vendor will evaluate ways to implement additional controls.

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

2023-11: Insufficient Documentation for Deemed Distribution Amounts

Finding: The Agency and its vendor did not have sufficient controls in place to maintain documentation to support the calculation of deemed distributions. Specifically, we selected a sample of [redacted] deemed distributions that occurred during the audit scope period and identified [redacted] exceptions in [redacted] of these distributions, as follows:

- [redacted] for which the Agency and its vendor provided the incorrect Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., to support the deemed distribution related to the selected loan. The documentation provided was related to the other types of distributions (e.g., total distributions) declared during the same tax year.

- [redacted] for which the gross distribution amount per the provided Form 1099-R(s) did not agree to the gross distribution amount per the TSP system.
- [redacted] for which the Agency and its vendor did not provide documentation to evidence the proportions of the Traditional and Roth balances applied to the loan at initiation.
- [redacted] for which the Agency and its vendor did not provide documentation to evidence the accuracy of the tax-exempt portion of the deemed distribution.
- [redacted] for which we noted that the allocation of the taxable and non-taxable balances on the Form 1099-R did not agree to the proportion of Roth and Traditional balances allocated to the loan at initiation.

Recommendation: The Agency should require its vendor to design and implement controls over the retention of supporting documentation and underlying data for deemed distributions and participant balances.

<u>Agency Response:</u>

The Agency concurs. The Agency and its vendor maintain supporting documentation as required and will take the necessary steps to improve the ability to retrieve supporting documentation for transactions from the past. This may include enhancements to underlying storage systems to track the large volumes of documents at a more detailed level.

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

<u>2023-12: Insufficient Documentation for Participant Status Changes and Loan Disbursements</u>

Finding: The Agency and its vendor did not have controls in place to maintain documentation related to participant nonpay status and loan disbursements. Specifically, we selected a sample of [redacted] participants who entered nonpay status during the year prior to the audit scope period, [redacted] loan disbursements that occurred during the scope period, and [redacted] instances of loan re-amortizations that occurred during the scope period. Of these sample items, we identified exceptions in [redacted] loans, as follows:

- [redacted] in which the Agency and its vendor did not provide the TSP-41, Notification to TSP of Nonpay Status, that evidenced the start date of the participant's nonpay status.
- [redacted] in which the Agency and its vendor did not provide the Loan Promissory Notice – Thrift Savings Plan that evidenced the loan agreement and related parameters.

Recommendation: The Agency should require its vendor to retain supporting documentation for participant status changes and loan disbursements.

<u>Agency Response:</u>

The Agency concurs. The Agency and its vendor maintain supporting documentation as required and will take the necessary steps to improve the ability to retrieve supporting documentation for transactions from the past. This may include enhancements to underlying storage systems to track the large volumes of documents at a more detailed level.

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

2023 OTHER CONTROL FINDINGS AND RECOMMENDATIONS

2023-13: Deficiency in Timely Loan Disbursements

Finding: The Agency and its vendor did not have sufficient controls in place to consistently support timely loan disbursements. Specifically, we selected a sample of [redacted] loan disbursements and noted [redacted] in which the participant's loan was disbursed 64 days after initiation, and the Agency began collecting payments from the participant prior to the loan disbursement.

Recommendation: The Agency should require its vendor to design and implement monitoring controls over the timely disbursement of loans.

Agency Response:

The Agency concurs. The Agency acknowledges there was a delay for the [redacted] disbursement specific to the participant's request to reissue the loan to a revised payee address. The vendor has implemented improvements to the reissue process flow that have reduced the turnaround time of reissues in recent months.

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

2023-14: Inconsistent Implementation of Accounting Reconciliations

Finding: During our test of design and implementation over the daily accounting reconciliations performed by the Agency's vendor, we noted certain deficiencies related to the documentation and peer review of the reconciliations. Specifically, we reviewed a sample of reconciliation packages for TSP Recon 1: Non-Payroll Loan Payments and Rollover-In Reconciliations, TSP Reconciliation 2 and 2c: Agency Payroll Reconciliation, and TSP Recon 3: Disbursements Reconciliation, noting the following:

- For TSP Recon 2c, [redacted] sample items included unresolved variances that were identified as many as seven months prior. The Agency's vendor separately stated that these variances were the result of post-conversion activities and were being addressed through a separate process. However, this information was not documented within the reconciliations to evidence the status of the open variances.
- For TSP Recon 1, 2, 2c and 3, we noted [redacted] sample items, respectively, that did not include sufficient documentation or explanations that evidenced the preparer researched and took steps to resolve each identified variance at the participant level.

Recommendation: The Agency should require its vendor to enhance existing policies and procedures to clarify requirements for preparing and reviewing the daily reconciliations, including documentation of research and resolution of variances and the timeframe for resolution of variances.

Agency Response:

The Agency concurs. The Agency acknowledges areas of improvement in accounting reconciliations. The Agency and its vendor have worked together over the past several months to establish more regular and detailed tracking of the accounting reconciliations. The Agency and its vendor will continue to look for ways to enhance the reconciliations to support more timely and accurate reporting.

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

2023-15: Inconsistent Implementation of Accounting Reconciliations

Finding: During our test of design and implementation over the daily accounting reconciliations performed by the Agency's vendor, we noted certain deficiencies related to the documentation and peer review of the reconciliations. Specifically, we reviewed a sample of reconciliation packages for TSP Recon 1: Non-Payroll Loan Payments and Rollover-In Reconciliations, TSP Reconciliation 2 and 2c: Agency Payroll Reconciliation, and TSP Recon 3: Disbursements Reconciliation, noting the following:

- For TSP Recon 2c, [redacted] sample items included unresolved variances that were identified as many as seven months prior. The Agency's vendor separately stated that these variances were the result of post-conversion activities and were being addressed through a separate process. However, this information was not documented within the reconciliations to evidence the status of the open variances.
- For TSP Recon 1, 2, 2c and 3, we noted [redacted] sample items, respectively, that did not include sufficient documentation or explanations that evidenced the preparer researched and took steps to resolve each identified variance at the participant level.

Recommendation: The Agency should require its vendor to design and implement monitoring controls over the performance of daily reconciliations in accordance with established policies and procedures.

Agency Response:

The Agency concurs. The Agency acknowledges areas of improvement in accounting reconciliations. The Agency and its vendor have worked together over the past several months to establish regular cadence and detailed tracking of the accounting reconciliations. The Agency and its vendor will continue to look for more ways to implement monitoring controls to enhance reconciliations for timely and accurate reporting, including the implementation of a regular operational monitoring process to ensure reconciliations consistently reflect appropriate level of details and actions being taken at any given time to address ongoing variances.

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

2023-16: Deficiency in the Processing of Non-Payroll Loan Payments

Finding: The Agency and its vendor did not have sufficient controls in place over the timely processing of non-payroll loan payments. Specifically, we selected a sample of [redacted] non-payroll loan payments that occurred during the audit scope period and noted [redacted] in which the Agency and its vendor did not process the check within 48 business hours of receipt.

Recommendation: The Agency should require its vendor to design and implement monitoring controls over the timely processing of non-payroll loan payments.

Agency Response:

The Agency concurs. The Agency acknowledges that [redacted] was an anomaly and not processed within 48 business hours. The vendor has since put in place operational monitoring and routines to support the timeliness of non-payroll loan repayment checks and strives to process all incoming checks within 48 business hours of receipt. The Agency and its vendor will continue to evaluate its operational monitoring control in place for any gaps and take necessary steps if additional controls are deemed necessary.

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

KEY DOCUMENTATION AND REPORTS REVIEWED

<u>Federal Retirement Thrift Investment Board's (FRTIB) Staff (Agency) Documents, Reports, and Sources</u>

- General ledger reconciliation documentation for selected dates during the period of June 1, 2022, through January 31, 2023
- *Minutes of the Meeting of the Board Members* for the monthly FRTIB meetings that occurred during the period of June 2022 through May 2023
- *Loans Booklet*, dated December 2022
- [redacted]
- Thrift Savings Plan (TSP) website
- [redacted]

<u>Agency Vendor Documents and Reports</u>

- [redacted]
- *Loan Re-amortization Confirmation Notice*
- *Pending Taxable Distribution Notice*

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

- *Loan Taxable Distribution Notice*
- *Loan Taxable Distribution Reminder*
- *Loan Paid in Full Notice*
- *Nonpay Confirmation Notice*
- TSP-21-G and TSP-21-R, *Loan Agreement*
- TSP-41, *Notification of TSP Non-pay Status*
- Form 1099-R, *Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*
- Electronic listing of all outstanding loans (general purpose and primary residence) during the period June 1, 2022, through January 31, 2023
- Electronic listing of all loans disbursed during the period June 1, 2022, through January 31, 2023
- Electronic listing of taxable distributions declared during the period June 1, 2022, through December 31, 2022
- Electronic listing of all loan re-amortizations during the period June 1, 2022, through January 31, 2023
- Electronic listing of all loans with additional payments (prepayments) during the period June 1, 2022, through January 31, 2023
- Electronic listing of all participants who entered non-pay status during the period June 1, 2022, through January 31, 2023
- Electronic listing of all participants who entered non-pay status while having an outstanding loan during the period June 1, 2021, through January 31, 2022
- Quarterly Loan Default Sweeps during the period June 1, 2022, through January 31, 2023
- TSP system edit check and interface documentation during the period of June 1, 2022, through January 31, 2023
- TSP website edit check and interface documentation during the period of June 1, 2022, through January 31, 2023
- TSP system screenshots and participant notifications for loan disbursements for selected transactions during the period of June 1, 2022, through January 31, 2023
- TSP system screenshots for payroll-related loan payments for selected transactions during the period of June 1, 2022, through January 31, 2023
- TSP system screenshots for selected loans paid in full during the period of June 1, 2022, through January 31, 2023
- TSP system screenshots and participant notifications for selected additional payment/loan

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

prepayment transactions during the period of June 1, 2022, through January 31, 2023

- TSP system screenshots and participant notifications for selected deemed (taxable) distribution transactions during the period of June 1, 2022, through December 31, 2022
- TSP system screenshots and participant notifications for selected participants that entered non-pay status while having an outstanding loan during the period of June 1, 2022, through January 31, 2023
- TSP system screenshots and participant notifications for selected participants who entered non-pay status while having an outstanding loan during the period June 1, 2021, through January 31, 2022, and who were in non-pay status for at least one year during the period of June 1, 2022, through January 31, 2023
- TSP system screenshots and participant notifications selected participants who missed at least two loan payments during the period of June 1, 2022, through January 31, 2023
- TSP system screenshots and participant notifications selected loans that were re-amortized during the period of June 1, 2022, through January 31, 2023
- [redacted]
- [redacted]
- [redacted]
- [redacted]

Other Documents and Reports

- [redacted]
- [redacted]