



Employee Benefits Security Administration

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

August 7, 2015

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KPMG LLP
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EXECUTIVE SUMMARY

Members of the Federal Retirement Thrift Investment Board
Washington, DC

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

Ian Dingwall
Chief Accountant
U.S. Department of Labor, Employee Benefits Security Administration
Washington, DC

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) Government Securities Investment Fund (G Fund) investment operations. Our fieldwork was performed from February 24 through March 13, 2015 primarily at the U.S. Department of the Treasury (Treasury). We also performed procedures over debt issuance suspensions related to the G Fund investment operations at the Federal Retirement Thrift Investment Board (Board) from February 24 through March 13, 2015. Our scope period for testing was January 1, 2014 through December 31, 2014.

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. Those 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 engagement are



defined in the EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes United States Code (USC) Title 5, Chapter 84.

The objectives of our audit over the TSP G Fund investment operations were to:

- Determine if Treasury implemented certain procedures to (1) accurately calculate the G Fund interest rate and interest earned on G Fund investments; (2) accurately summarize and report G Fund investments and related earnings to the Board's Staff (Agency); (3) Promptly notify Congress and the Agency when a debt issuance suspension is necessary and when the suspension period ends; and (4) promptly and accurately restore the G Fund upon expiration of a debt issuance suspension period to the state it would have been in had the suspension not occurred.
- Determine if the Agency implemented certain procedures to promptly and accurately report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods.
- Test compliance of the TSP G Fund investment operations with USC Title 5, Sections 8438(e)(2)(A), (g)(4-5), and (h)(1-2).

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

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We determined that for the period January 1, 2014 through December 31, 2014, Treasury implemented certain procedures to (1) accurately calculate the G Fund interest rate and interest earned on G Fund investments; (2) accurately summarize and report G Fund investments and related earnings to the Agency; (3) Promptly notify Congress and the Agency when a debt issuance suspension is necessary and when the suspension period ends; and (4) promptly and accurately restore the G Fund upon expiration of a debt issuance suspension period to the state it would have been in had the suspension not occurred. In addition, we determined that for the period January 1, 2014 through December 31, 2014, the Agency implemented certain procedures to promptly and accurately report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods. As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA in the TSP G Fund investment operations.



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

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

KPMG LLP

August 7, 2015

I. BACKGROUND OF THE TSP AND THE TSP G FUND INVESTMENT OPERATIONS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System and provides a federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions April 1, 1987, and as of December 31, 2014, had approximately \$440 billion in assets and more than 4.7 million participants¹.

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

The TSP is required to offer five investment options: the Government Securities Investment Fund (G Fund), the Fixed Income Investment Fund (F Fund), the Common Stock Index Investment Fund (C Fund), the Small Capitalization Stock Index Fund (S Fund), and the International Stock Index Investment Fund (I Fund). For the G Fund, FERSA requires contributions to be invested in nonmarketable U.S. Treasury securities specially issued to the TSP. These securities earn interest at a rate that is equal, by law, to the average of market yields on U.S. Treasury marketable securities outstanding with 4 or more years to maturity as of the last business day of the prior month;

Additionally, the TSP offers the L Funds, which are portfolio funds comprised of the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to five different time horizons.

¹ Source: Minutes of the January 26, 2015 Federal Retirement Thrift Investment Board Meeting, posted on www.frtib.gov.

B. TSP G Fund Investment Management Operations

The U.S. Department of the Treasury (Treasury)

The Secretary of the Treasury is authorized by FERSA to issue special interest-bearing obligations for purchase by the G Fund as long as such issuances do not cause the public debt of the United States to exceed the public debt limit. These obligations bear an interest rate equal to the average market yield for all marketable interest-bearing obligations of the United States forming a part of the public debt that are not due or callable within 4 years, as of the last business day of the preceding month.

The monthly interest rate for the G Fund is calculated by Treasury's Office of Debt Management using the Treasury Debt Management System (TDMS). Data entered into the system for this calculation includes:

- The outstanding face value of all marketable interest-bearing U.S. Government obligations that are not due or callable within 4 years, and the related coupon rate and maturity or call date (as applicable), obtained from Treasury's Bureau of the Fiscal Service; and
- The bid prices at the close of business as of the last business day of the prior month. These bid prices are obtained from the Federal Reserve Bank of New York and are based on a composite of bid prices reported by the major dealers in U.S. government securities.

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

Whenever special interest-bearing obligations cannot be issued for purchase by the G Fund because of the public debt limit, Treasury is required to immediately notify Congress and the Agency in writing. Once the debt issuance suspension period expires, Treasury must immediately issue the special interest-bearing obligations that would have been held by the G Fund and pay the related interest that would have been earned had the suspension not occurred. Treasury is also required to notify Congress and the Agency in writing that the suspension period has ended.

The Agency

The G Fund is managed internally by the Agency, which is responsible for purchasing nonmarketable U.S. Treasury securities on behalf of TSP participants. Principal and interest on G Fund investments are guaranteed by the full faith and credit of the U.S. Government. To minimize G Fund market risk, the Agency has limited the investment of G Fund assets to U.S. Treasury obligations that mature the next business day. The Agency's selection of next business day maturities for G Fund investments is in accordance with the Board's policy to invest the G Fund in short-term securities.

On a daily basis, the Agency calculates the amount of funds to be invested in the G Fund, and submits an investment purchase request to Treasury using FedInvest². Once the request is submitted, FedInvest produces an electronic confirmation with the details of the investment purchase.

C. TSP Fund Statistics

The table below represents the rate of return on each of the TSP funds for the twelve months ended December 31 for each of the last 3 years³.

Exhibit I-1

TSP Fund	12 Months Ended December 31, 2014 (unaudited)	12 Months Ended December 31, 2013 (unaudited)	12 Months Ended December 31, 2012 (unaudited)
G Fund	2.34%	1.89%	1.47%
F Fund	6.73%	(1.68%)	4.29%
C Fund	13.78%	32.45%	16.07%
S Fund	7.80%	38.35%	18.57%
I Fund	(5.27%)	22.43%	18.62%
L Income	3.77%	6.97%	4.77%

As of December 31, 2014, 35 percent (unaudited) of TSP assets were invested in the G Fund, as illustrated in Exhibit I-2. A summary of TSP investments held by the G, F, C, S, I and L Funds on December 31, 2014 and December 31, 2013, is also illustrated in Exhibit I-2.

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

³ Source: "Summary of Returns", posted on www.tsp.gov/investmentfunds/returns/returnSummary.shtml.

Exhibit I-2

TSP Fund	Fund Balances December 31, 2014 (unaudited)⁴	% of Total	Fund Balances December 31, 2013 (unaudited)⁵	% of Total
G Fund	\$153.89 billion	35%	\$146.91 billion	37%
F Fund	21.98 billion	5%	19.85 billion	5%
C Fund	123.11 billion	28%	103.24 billion	26%
S Fund	43.97 billion	10%	39.71 billion	10%
I Fund	21.98 billion	5%	23.82 billion	6%
L Funds	74.74 billion	17%	63.53 billion	16%
Total⁶	\$439.67 billion	100%	\$397.06 billion	100%

⁴ Source: Minutes of the January 26, 2015 Federal Retirement Thrift Investment Board Meeting, posted on www.frtib.gov.

⁵ Source: Minutes of the January 27, 2014 Federal Retirement Thrift Investment Board Meeting, posted on www.frtib.gov.

⁶ The balances of the L Funds are invested in the underlying five funds (i.e., G, F, C, S, and I Funds).

II. OBJECTIVE, SCOPE AND METHODOLOGY

A. Objectives

The U.S. Department of Labor, Employee Benefits Security Administration (EBSA) engaged KPMG LLP (KPMG) to conduct a performance audit of the Thrift Savings Plan (TSP) Government Securities Investment Fund (G Fund) investment operations.

The objectives of our performance audit were to:

- Determine if the U.S. Department of the Treasury (Treasury) implemented certain procedures to (1) accurately calculate the G Fund interest rate and interest earned on G Fund investments; (2) accurately summarize and report G Fund investments and related earnings to the Federal Retirement Thrift Investment Board's Staff (Agency); (3) Promptly notify Congress and the Agency when a debt issuance suspension is necessary and when the suspension period ends; and (4) promptly and accurately restore the G Fund upon expiration of a debt issuance suspension period to the state it would have been in had the suspension not occurred.
- Determine if the Agency implemented certain procedures to promptly and accurately report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods.
- Test compliance of the TSP G Fund investment operations with United States Code (USC) Title 5, Sections 8438(e)(2)(A), (g)(4-5), and (h)(1-2) (hereinafter referred to as FERSA).

B. Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was January 1, 2014 through December 31, 2014. We performed the audit in four phases: (1) planning; (2) arranging for the engagement with Treasury and the Agency; (3) testing and interviewing, and (4) report writing.

The planning phase was designed to assist team members to develop a collective understanding of the activities and controls associated with the applications, processes, and personnel involved with

TSP G Fund operations. Arranging the engagement included contacting the Agency and Treasury and agreeing on the timing of detailed testing procedures.

During the testing and interviewing phase,

performed tests of compliance. We conducted these test procedures at Treasury and the Agency. In Appendix B, we identify the key documentation provided by Treasury and Agency personnel that we reviewed during our performance audit.

Our performance audit procedures included using random attribute sampling to select a specific sample of TSP G Fund investment transactions, which we used to determine if Treasury and the Agency processed TSP G Fund investment transactions in a manner that complied with FERSA. We selected the following sample in this manner:

- Debt suspension period transactions to determine if the Agency and Treasury made the required notifications for debt issuance suspension periods.

Additionally, our performance audit procedures included testing non-statistical samples of the following information obtained from the Agency and Treasury:

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

⁷ We did not test the Treasury's Bureau of the Fiscal Service's determination of the amount of United States debt outstanding included in the selected Notes and Bonds Trust Fund Reports. This information was used by the Treasury's Office of Debt Management to calculate the G Fund interest rate, and we relied upon it without further testing.

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

III. FINDINGS

A. Introduction

We conducted a performance audit of the Thrift Savings Plan (TSP) Government Securities Investment Fund (G Fund) investment operations and performed procedures primarily at the U.S. Department of the Treasury (Treasury). We also performed procedures over debt issuance suspensions related to the G Fund investment operations at the Federal Retirement Thrift Investment Board's Staff's (Agency) headquarters. Our scope period for testing was January 1, 2014 through December 31, 2014. 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 C), and observing selected procedures.

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We determined that for the period January 1, 2014 through December 31, 2014, Treasury implemented certain procedures to (1) accurately calculate the G Fund interest rate and interest earned on G Fund investments; (2) accurately summarize and report G Fund investments and related earnings to the Agency; (3) Promptly notify Congress and the Agency when a debt issuance suspension is necessary and when the suspension period ends; and (4) promptly and accurately restore the G Fund upon expiration of a debt issuance suspension period to the state it would have been in had the suspension not occurred. In addition, we determined that for the period January 1, 2014 through December 31, 2014, the Agency implemented certain procedures to promptly and accurately report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods. As a result of our compliance testing, we did not identify any instances of noncompliance with United States Code Title 5, Sections 8438(e)(2)(A), (g)(4-5), and (h)(1-2) in the TSP G Fund investment operations.

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

Agency's Response



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

August 7, 2015

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

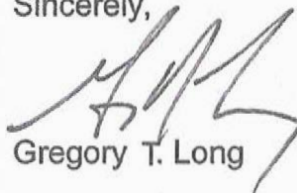
Dear Mr. Dingwall:

This is in response to KPMG's email of July 22, 2015, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Government Securities Investment Fund Investment Operations, dated August 7, 2015. My comments with respect to this report are enclosed.

We are pleased to note during the FY 2015 audit that the auditors did not identify any instances where TSP investment management operations did not comply with FERSA and with applicable Board regulations and bulletins for the period January 1, 2014 through December 31, 2014. We are very pleased to note that there are no audit recommendations.

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.

Sincerely,



Gregory T. Long

Enclosure

Executive Director's Staff Comments on the
Employee Benefits Security Administration's Performance Audit of the
Thrift Savings Plan Government Securities Investment Fund Investment Operations
Dated August 7, 2015

Recommendations to Address Fundamental Controls:

2015 Recommendations: None

Recommendations to Enhance Efficiency and Effectiveness:

2015 Recommendations: None

Recommendations – Other:

2015 Recommendations: None

Treasury's Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

AUG 7 2015

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

Dear Mr. Dingwall:

Thank you for the opportunity to review and comment on the Employee Benefits Security Administration audit report as it relates to the Department of the Treasury's investment operations for the Government Securities Investment Fund (G Fund).

We note that the report finds:

"We determined that for the period January 1, 2014 through December 31, 2014, Treasury implemented certain procedures to (1) accurately calculate the G Fund interest rate and interest earned on G Fund investments; (2) accurately summarize and report G Fund investments and related earnings to the Agency; (3) Promptly notify Congress and the Agency when a debt issuance suspension is necessary and when the suspension period ends; and (4) promptly and accurately restore the G Fund upon expiration of a debt issuance suspension period to the state it would have been in had the suspension not occurred. In addition, we determined that for the period January 1, 2014 through December 31, 2014, the Agency implemented certain procedures to promptly and accurately report to Treasury daily G Fund investments that would have been invested or redeemed during debt issuance suspension periods. As a result of our compliance testing, we did not identify any instances of noncompliance with United States Code (USC) Title 5, Sections 8438(e)(2)(A), (g)(4-5), and (h)(1-2) in the TSP G Fund investment operations.

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

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

Sincerely,

Kristine S. Comrath
Deputy Assistant Secretary
Fiscal Operations and Policy

KEY DOCUMENTATION AND REPORTS REVIEWED**U.S. Department of the Treasury's Documents and Reports***Bureau of the Fiscal Service*

- FedInvest Confirmation of Investment and Confirmation of Redemption, various 2014 dates
- Monthly Statement of the Public Debt of the United States, various dates
- “Operating Procedures During A Delay in Raising the Debt Limit - Thrift Savings Fund” Memorandum
- Daily calculations related to the G Fund during the Debt Issuance Suspension Period dated February 10, 2014 through February 18, 2014

Office of Debt Management

- Notes and Bonds Trust Fund Reports, various 2014 dates
- Quotations on Treasury Notes and Bonds, various 2014 dates
- Average Yield Recalculation Worksheet

Office of the Inspector General

- Report on the Bureau of the Fiscal Service Federal Investments Branch's Description of its Investment/Redemption Services and the Suitability of the Design and Operating Effectiveness of Its Controls (SSAE 16 – Type 2 Report), For the Period August 1, 2013 to July 31, 2014

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

- Communication provided to, and received from, the U.S. Department of the Treasury's Bureau of the Fiscal Service for each day during the Debt Issuance Suspension Period dated February 10, 2014 through February 18, 2014
- Monthly Board Meeting Minutes for the January 2014 through January 2015 meetings