



**Employee Benefits Security Administration**

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


**April 24, 2018**

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## EXECUTIVE SUMMARY

Members of the Federal Retirement Thrift Investment Board  
Washington, DC

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

  
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 December 4, 2017 through January 29, 2018 primarily at the U.S. Department of the Treasury (Treasury). We also performed fieldwork over debt issuance suspensions related to the G Fund investment operations at the Federal Retirement Thrift Investment Board's Staff's (Agency) headquarters in Washington, DC from December 4, 2017 through January 29, 2018. Our scope period for testing was January 1, 2017 through December 31, 2017.

We conducted this performance audit in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the American Institute of Certified Public Accountants' *Standards for Consulting Services*. *Government Auditing Standards* require that we plan and perform the audit to obtain sufficient appropriate audit evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions

based on our objectives. Criteria used for this 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 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), 8438(g)(4-5), and 8438(h)(1-2) (hereinafter referred to as FERSA).

We noted no prior findings and recommendations, and the current engagement produced no new findings and 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, 2017 through December 31, 2017, 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, 2017 through December 31, 2017, 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 Federal Retirement Thrift Investment Board, and Treasury management. The report is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

April 24, 2018

## **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 (FERS) and provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of the uniformed services, and members of Congress and certain Congressional employees. The TSP began accepting contributions April 1, 1987, and as of December 31, 2017, had approximately \$542 billion in assets and more than 5.1 million participants<sup>1</sup>.

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

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 Lifecycle Funds (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.

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<sup>1</sup> Source: Minutes of the January 22, 2018 Federal Retirement Thrift Investment Board Meeting, posted on [www.frtib.gov](http://www.frtib.gov).

## **B. TSP G Fund Investment Management Operations**

### The Agency

The G Fund is managed internally by the Agency, which is responsible for purchasing nonmarketable U.S. Department of the Treasury (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 FedInvest. Once the request is submitted, FedInvest produces an electronic confirmation with the details of the investment purchase.

During a debt issuance suspension period, the Executive Director of the Agency is required to notify the Secretary of the Treasury daily of the amounts that would have been invested or redeemed had the debt issuance suspension period not occurred.

### The U.S. Department of the 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 statutory 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 of the aforementioned obligations 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<sup>2</sup>, 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.

### 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 years<sup>3</sup>.

*Exhibit I-1*

<b>TSP Fund</b>	<b>12 Months Ended December 31, 2017 (unaudited)</b>	<b>12 Months Ended December 31, 2016 (unaudited)</b>	<b>12 Months Ended December 31, 2015 (unaudited)</b>
G Fund	2.33%	1.82%	2.04%
F Fund	3.82%	2.91%	0.91%
C Fund	21.82%	12.01%	1.46%
S Fund	18.22%	16.35%	(2.92%)
I Fund	25.42%	2.10%	(0.51%)

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

<sup>3</sup> Source: "Summary of Returns", posted on [www.tsp.gov/investmentfunds/returns/returnSummary.shtml](http://www.tsp.gov/investmentfunds/returns/returnSummary.shtml).



*Exhibit I-1 (continued)*

<b>TSP Fund</b>	<b>12 Months Ended December 31, 2017 (unaudited)</b>	<b>12 Months Ended December 31, 2016 (unaudited)</b>	<b>12 Months Ended December 31, 2015 (unaudited)</b>
L Income	6.19%	3.58%	1.85%
L 2020	9.86%	5.47%	1.35%
L 2030	14.54%	7.07%	1.04%
L 2040	16.77%	7.90%	0.73%
L 2050	18.81%	8.65%	0.45%

As of December 31, 2017, 30 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, 2017 and December 31, 2016, is also illustrated in Exhibit I-2.

*Exhibit I-2*

<b>TSP Fund</b>	<b>Fund Balances December 31, 2017 (unaudited)<sup>4</sup></b>	<b>% of Total</b>	<b>Fund Balances December 31, 2016 (unaudited)<sup>5</sup></b>	<b>% of Total</b>
G Fund	\$ 162.7 billion	30%	\$ 193.2 billion	39%
F Fund	21.7 billion	4%	19.8 billion	4%
C Fund	162.7 billion	30%	128.8 billion	26%
S Fund	59.7 billion	11%	49.6 billion	10%
I Fund	27.1 billion	5%	19.8 billion	4%
L Funds	108.5 billion	20%	84.2 billion	17%
<b>Total<sup>6</sup></b>	<b>\$ 542.4 billion</b>	<b>100%</b>	<b>\$ 495.4 billion</b>	<b>100%</b>

<sup>4</sup> Source: Minutes of the January 22, 2018 Federal Retirement Thrift Investment Board Meeting, posted on [www.frtib.gov](http://www.frtib.gov).

<sup>5</sup> Source: Minutes of the January 23, 2017 Federal Retirement Thrift Investment Board Meeting, posted on [www.frtib.gov](http://www.frtib.gov).

<sup>6</sup> 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 audit over the TSP G Fund investment operations 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 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 Board's staff (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), 8438(g)(4-5), and 8438(h)(1-2).

### B. Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and the American Institute of Certified Public Accountants' *Standards for Consulting Services*, using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was January 1, 2017 through December 31, 2017. 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 [REDACTED]

During the testing and interviewing phase, we conducted interviews, collected and inspected auditee-provided documentation and evidence, participated in process walk-throughs, considered tests of controls included in Treasury's *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 18 – Type 2 Report), and designed and performed tests of controls and 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:

- Treasury's Notes and Bonds Trust Fund Reports<sup>7</sup>; and
- Listing of investment transactions requested and processed during the debt issuance suspension periods.

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.

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<sup>7</sup> 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.

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

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 performed procedures related to the Thrift Savings Plan (TSP) Government Securities Investment Fund (G Fund) investment operations while conducting a performance audit 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 (Board) Staff headquarters (Agency). Our scope period for testing was January 1, 2017 through December 31, 2017. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel, reviewing key reports and documentation (Appendix B), and observing selected procedures.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2017 through December 31, 2017, 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, 2017 through December 31, 2017, the Agency implemented certain procedures to promptly and accurately report to Treasury the 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 the USC Title 5, Sections 8438(e)(2)(A), 8438(g)(4-5), and 8438(h)(1-2) in the TSP G Fund investment operations.

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

## AGENCY'S RESPONSE



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

April 24, 2018

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 March 29, 2018, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of Thrift Savings Plan Government Securities Investment Fund Investment Operations, dated April 2018.

We are pleased to note during the FY 2018 audit that the auditors did not identify any instances where TSP G Fund investment operations did not comply with FERSA and with applicable Board regulations and bulletins for the period of January 1, 2017 through December 31, 2017. We are very pleased to note 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.

Very truly yours,

A handwritten signature in cursive script that reads "Ravindra Deo".

Ravindra Deo



TREASURY'S RESPONSE  
DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

APR 24 2018

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 Mr. Auerbach:

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 conclude that for the period January 1, 2017 through December 31, 2017, 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, 2017 through December 31, 2017, the Agency implemented certain procedures to promptly and accurately report to Treasury the 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 the USC Title 5, Sections 8438(e)(2)(A), 8438(g)(4-5), and 8438(h)(1-2) in the TSP G Fund investment operations.*

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

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

Sincerely,

Kristine S. Conrath  
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 2017 dates
- Monthly Statement of the Public Debt of the United States, various 2017 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 Periods dated March 16, 2017 through September 11, 2017 and December 12, 2017 through the end of the scope period (i.e., December 31, 2017)

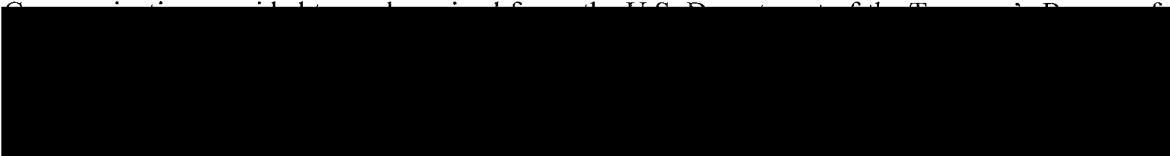
#### *Office of Debt Management*

- Notes and Bonds Trust Fund Reports, various 2017 dates
- Quotations on Treasury Notes and Bonds, various 2017 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 18 – Type 2 Report), for the Period August 1, 2016 to July 31, 2017

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

-   
(i.e., December 31, 2017)
- Monthly Board Meeting Minutes for the January 2017 through January 2018 meetings