



Employee Benefits Security Administration

Performance Audit of Loans and Withdrawals Policies and Procedures for the New Thrift Savings Plan Recordkeeping System

May 17, 2022

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
EXECUTIVE SUMMARY	i
I. BACKGROUND OF THE TSP, TSP SYSTEM, AND LOANS AND WITHDRAWALS POLICIES AND PROCEDURES	I.1
A. The Thrift Savings Plan	I.1
B. TSP System.....	I.1
C. Loans and Withdrawals Policies and Procedures	I.2
II. OBJECTIVES, SCOPE, AND METHODOLOGY	II.1
A. Objectives	II.1
B. Scope and Methodology	II.1
III. FINDINGS AND RECOMMENDATIONS	III.1
A. Introduction.....	III.1
B. Other Results.....	III.1
<u>Appendices</u>	
A. Agency’s Response.....	A.1
B. Key Documentation and Reports Reviewed.....	B.1

EXECUTIVE SUMMARY

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

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As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of the loans and withdrawals policies and procedures for the new Thrift Savings Plan (TSP) recordkeeping system. Our fieldwork was performed remotely from December 15, 2021 through March 28, 2022, 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 as of January 31, 2022.

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 loans and withdrawal policies and procedures for the new TSP recordkeeping system were to determine if the Agency implemented certain procedures to determine if policies and procedures are being developed by the new recordkeeping system service provider¹ for (1) processing TSP withdrawal and loan transactions promptly and accurately in individual participant accounts; (2) processing authorized participant payments in accordance with

¹ Also referred to as "TSP managed service provider" in this report.

applicable provisions of the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, and applicable Agency regulations; and (3) submitting withdrawals and loan activity for recording in the TSP accounting records.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that as of January 31, 2022, the Agency implemented certain procedures to determine if policies and procedures are being developed by the new recordkeeping system service provider¹ for (1) processing TSP withdrawal and loan transactions promptly and accurately in individual participant accounts; (2) processing authorized participant payments in accordance with applicable provisions of FERSA, as amended, and applicable Agency regulations; and (3) submitting withdrawals and loan activity for recording in the TSP accounting records.

No prior findings or recommendations were within the scope of this audit, and the current engagement produced no new findings or recommendations. Section III.B presents observations relevant to our audit objectives made during this audit.

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 Benefits Security Administration, Members of the Federal Retirement Thrift Investment Board, and Agency management. The report is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

May 17, 2022

I. BACKGROUND OF THE TSP, TSP SYSTEM, AND LOANS AND WITHDRAWALS POLICIES AND PROCEDURES

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, 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, 2022, had approximately \$781 billion in assets and nearly 6.5 million participants².

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

B. TSP System³

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. The design of the TSP system is based on interrelating commercial off-the-shelf (COTS) software that requires the Agency to modify certain business processes to provide enhanced functionality.

In June 2018, the Agency announced that it would replace its existing TSP recordkeeper and seek a new defined contribution/deferred compensation service provider to perform TSP recordkeeping and associated managed services. These managed services include the operation and management of the associated resources, processes, and systems required to deliver TSP retirement services⁴. This acquisition was part of the Agency's strategic plan to move closer to its future business model

² Source: Minutes of the Federal Retirement Thrift Investment Board meeting held on February 23, 2022, posted on www.frtib.gov.

³ Source: Internally-sourced system documentation.

⁴ Source: Agency press release, dated June 28, 2018, posted on www.frtib.gov.

of procuring services instead of owning and operating TSP recordkeeping systems, while also delivering improved services and tools to support TSP participants and beneficiaries⁵. In September 2020, the Board approved the 2021 budget, which included additional funding for the recordkeeping services acquisition (RKSA)⁶.

In November 2020, the Agency awarded the RKSA contract for managed recordkeeping services. Under this contract, the contractor (TSP managed service provider) is directly responsible for delivery of TSP managed services, and its primary subcontractor (recordkeeping service provider) is responsible for developing and managing the new recordkeeping system and associated support subsystems⁷. This contract award and associated system have been formally named as the Converge program. The TSP managed service provider and recordkeeping service provider are collectively referred to as the Converge service providers. As of January 31, 2022, the new recordkeeping system was in the pre-implementation phase as it was under development and not yet operational. The new recordkeeping system is scheduled to go live during the third quarter of fiscal year 2022.

The new recordkeeping system is distinctly divided across core recordkeeping services (managed by the recordkeeping service provider) and supporting business capabilities (delivered by the TSP managed service provider), such as customer relationship management, contact center operations, analytics, and security operations.

C. Loans and Withdrawals Policies and Procedures⁸

Loans and withdrawals are the primary outflows from the TSP to participants. Under FERSA, as amended, any time before separation, actively employed TSP participants in pay status may borrow a portion of the amounts they have contributed along with related earnings⁹. Also under FERSA, as amended, TSP participants are eligible to withdraw their vested account balances upon separation or retirement from Federal employment or while employed (i.e., in service), under certain conditions. Post-separation participants may withdraw their TSP balances via a partial

⁵ Source: Agency fiscal year 2017-2021 Strategic Plan Closeout Report, dated May 2021, posted on www.frtib.gov.

⁶ Source: Minutes of the Federal Retirement Thrift Investment Board meeting held on September 14, 2020, posted on www.frtib.gov.

⁷ Throughout this report, “new recordkeeping system” refers to the TSP recordkeeping system and all associated support subsystems.

⁸ Source: Information provided by interviews with Agency personnel and Agency internal documents.

⁹ Source: *TSP Loan Booklet*, July 2021

withdrawal or a full withdrawal with the option of a single payment, a series of monthly, quarterly, or annual payments, a life annuity, or a mixed withdrawal (i.e., a combination of the aforementioned options). If a participant's account is less than \$200 after separation, the balance will automatically be paid directly to them in a single payment (i.e., automatic cash out). In-service participants may make an age-based in-service withdrawal or a financial hardship in-service withdrawal¹⁰. Key operating functions for the loans and withdrawals processes will primarily be performed through the new recordkeeping system after its implementation.

The Board is responsible for establishing administrative loan and withdrawal policies and regulations for the TSP. The Executive Director and the Agency are responsible for carrying out Board policies and for prescribing regulations as necessary to administer TSP operations. To support the implementation of the new recordkeeping system in accordance with Agency policies, the TSP managed service provider and the Agency developed listings of applicable terms, conditions, and system requirements for loans and withdrawals. The TSP managed service provider is responsible for developing and documenting procedures to support the loans and withdrawals processes as outlined in the RKSA contract and applicable requirements documents. As of January 31, 2022, all procedure documents created for the new recordkeeping system were in draft status as the new recordkeeping system was in the pre-implementation phase.

¹⁰ Sources: *Withdrawing from Your TSP Account for Separated and Beneficiary Participants*, September 2020; Agency Withdrawal Policy

II. OBJECTIVES, SCOPE, AND METHODOLOGY

A. Objectives

The U.S. Department of Labor (DOL) Employee Benefits Security Administration (EBSA) engaged KPMG LLP (KPMG) to conduct a performance audit of the loans and withdrawals policies and procedures for the new Thrift Savings Plan (TSP) recordkeeping system.

The objectives of our audit over the loans and withdrawal policies and procedures for the new TSP recordkeeping system were to determine if the Agency implemented certain procedures to determine if policies and procedures are being developed by the new recordkeeping system service provider¹ for (1) processing TSP withdrawal and loan transactions promptly and accurately in individual participant accounts; (2) processing authorized participant payments in accordance with applicable provisions of the Federal Employees' Retirement System Act of 1986, as amended, and applicable Agency regulations; and (3) submitting withdrawals and loan activity for recording in the TSP accounting records.

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 as of January 31, 2022. We performed the audit in four phases: (1) planning, (2) arranging for engagement with the Agency, (3) testing, and (4) report writing.

During the planning phase, team members developed a collective understanding of the activities and controls being developed and the applications, processes, and personnel involved with the implementation of TSP loans and withdrawal policies and procedures related to the new TSP recordkeeping system. Arranging the engagement included contacting the Agency and agreeing on the timing of detailed testing procedures.

During the testing phase, we conducted interviews, collected and inspected auditee-provided documentation and evidence, and designed and performed our audit procedures. Our testing considered controls for the Agency's review and approval of policies and procedures related to the new TSP recordkeeping system; however, our audit procedures did not include testing the

implementation and operating effectiveness of such policies and procedures because the new TSP recordkeeping system was not yet operational. We conducted our test procedures remotely in coordination with personnel primarily from the Agency's headquarters in Washington, D.C. In Appendix B, we identify the key documentation provided by Agency personnel that we reviewed during our performance audit.

Criteria used for this engagement are defined in EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes United States Code Title 5, Chapter 84, and the Code of Federal Regulation Title 5, Chapter VI.

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

III. FINDINGS AND RECOMMENDATIONS

A. Introduction

We performed procedures related to the loans and withdrawals policies and procedures for the new Thrift Savings Plan (TSP) recordkeeping system while remotely conducting a performance audit related to activities at the Federal Retirement Thrift Investment Board's (Board) Staff (Agency). Our scope period for testing was as of January 31, 2022. This performance audit consisted of interviewing key personnel and reviewing applicable policies and procedures, in draft or final form, supporting the new TSP recordkeeping system (Appendix B).

Our testing considered controls for the Agency's review and approval of policies and procedures related to the new TSP recordkeeping system; however, our audit procedures did not include testing the implementation and operating effectiveness of such policies and procedures because the new TSP recordkeeping system was not yet operational. In addition, we noted that certain documentation developed for the new TSP recordkeeping system was in draft as of January 31, 2022; however, we did not consider this to be a finding for the pre-implementation phase of the system. See Section III.B for additional information.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that as of January 31, 2022, the Agency implemented certain procedures to determine if policies and procedures are being developed by the new recordkeeping system service provider¹ for (1) processing TSP withdrawal and loan transactions promptly and accurately in individual participant accounts; (2) processing authorized participant payments in accordance with applicable provisions of the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, and applicable Agency regulations; and (3) submitting withdrawals and loan activity for recording in the TSP accounting records.

No prior findings or recommendations were within the scope of this audit, and the current engagement produced no new findings or recommendations. Section III.B presents observations relevant to our audit objectives made during this audit.

B. Other Results

While conducting our performance audit over TSP loans and withdrawals policies and procedures for the new TSP recordkeeping system, we made the following observations relevant to our audit

objectives.

Agency Policies

As part of our audit procedures, we reviewed eight existing Agency policies that management indicated would continue to apply to the processing and recording of loans and withdrawals in the new TSP recordkeeping system environment, relevant to our audit objectives. The policy documents included references to procedure documents as well as units and bureaus that will not exist once the new recordkeeping system is deployed. Agency management indicated that the policies will be updated to remove or update these references upon implementation of the new recordkeeping system, but no estimated completion date for the updated policies had been established as of January 31, 2022.

Agency and TSP Managed Service Provider Procedures Documents

As part of our audit procedures, we reviewed ten procedures documents, in draft form as of January 31, 2022, relevant to our audit objectives. Agency management indicated that the draft procedures documents provided to us represented all procedures documents they expected based on the system requirements. Additionally, Agency management indicated that they reviewed the system requirements documents but did not specifically review procedures documents. The Agency used performance-based measures to determine if the TSP managed service provider was fulfilling the requirements outlined in the system requirements documents. Specifically, the Agency performed user acceptance testing in January 2022 to determine if the procedures functioned as expected according to the system requirements.

These draft procedures documents covered the following topics and excluded the information noted below given their draft form:

Topic	Incomplete Sections
Accounting Reconciliations	<ul style="list-style-type: none">• Workflow• Exceptions and Troubleshooting• Service Expectations• Details on Controls• Document Controls (partial)
General Purpose Loans	<ul style="list-style-type: none">• Timeline• Workflow

Topic	Incomplete Sections
	<ul style="list-style-type: none"> • Exceptions and Troubleshooting • Details on Controls
Loan Delinquency Report and Notice Reviews	<ul style="list-style-type: none"> • Workflow • Exceptions and Troubleshooting • Service Expectations • Details on Controls • Document Controls (partial)
Non-Pay Status	<ul style="list-style-type: none"> • Workflow • Process Steps (partial) • Exceptions and Troubleshooting • Service Level Requirements (SLRs) and Key Performance Indicators (KPIs) • Service Expectations • Details on Controls • Document Controls (partial)
One-Time Loan Direct Debit Processing	<ul style="list-style-type: none"> • Timeline (partial) • Assumptions • Workflow • Exceptions and Troubleshooting • SLRs and KPIs • Service Expectations • Details on Controls • Document Controls (partial)
Partial/Early Loan Payoff Invoice Check Processing	<ul style="list-style-type: none"> • Assumptions • Workflow • Exceptions and Troubleshooting • SLRs and KPIs • Details on Controls • Document Controls (partial)
Payment Instruction File Process	<ul style="list-style-type: none"> • Workflow • Process Steps (partial) • Exceptions and Troubleshooting • Service Expectations • Document Controls (partial)
Primary Residence Loan Applications	<ul style="list-style-type: none"> • Timeline • Workflow

Topic	Incomplete Sections
	<ul style="list-style-type: none"> • Process Steps (partial) • Exceptions and Troubleshooting • Details on Controls • Document Controls (partial)
Taxed Loan Payoffs, Loan Delinquency and Coupon Check Processing, Separation from Employment Notices	<ul style="list-style-type: none"> • Workflow • Process Steps (partial) • Exceptions and Troubleshooting • Service Level Requirements (SLRs) and Key Performance Indicators (KPIs) • Service Expectations • Details on Controls • Document Controls (partial)
Withdrawal Consent Forms	<ul style="list-style-type: none"> • Assumptions • Workflow • Process Steps (partial) • Exceptions and Troubleshooting • SLRs and KPIs • Service Expectations • Details on Controls • Document Controls (partial)

The provided draft procedures documents were not signed indicating review and approval given their draft status.

Proposed Code of Federal Regulations (CFR) Changes

As part of our audit procedures specific to Objective (2), we reviewed a document entitled *Proposed CFR Changes*, provided to KPMG on January 11, 2022. The document is a listing of proposed changes to the CFR drafted by the Agency and the TSP managed service provider that are necessary as a result of the new TSP recordkeeping system. These proposed changes related to loans and withdrawals must be offered for public comment prior to implementation and are planned to be published in the CFR prior to the deployment of the new TSP recordkeeping system. Upon review of the document and comparison to applicable FERSA sections, we noted no inconsistencies with FERSA.

AGENCY'S RESPONSE

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



May 17, 2022

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 April 29, 2022, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of Loans and Withdrawals Policies and Procedures for the New Thrift Savings Plan Recordkeeping System, dated May 2022.

We are pleased to note during the FY 2022 audit that the auditors did not identify any instances where TSP operations did not comply with FERSA and with applicable Board regulations and bulletins as of January 31, 2022. 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 blue ink that reads "Ravindra Deo".

Ravindra Deo

Enclosure

KEY DOCUMENTATION AND REPORTS REVIEWED

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

- Office of the Chief Financial Officer Document Number 105, *Agency Ledger Procedures*, dated November 25, 2020
- Office of Participant Services (OPS) Document Number 120, *Withdrawal Policy*, dated February 21, 2020
- OPS Document Number 130, *Loans Policy*, dated December 17, 2020
- OPS Document Number 140, *Legal Processing Policy*, dated November 27, 2020
- OPS Document Number 150, *Error Correction and Exception Processing Policy*, dated December 3, 2020
- OPS Document Number 160, *Death Benefits Processing Policy*, dated November 27, 2020
- OPS Document Number 170, *OPS Service Provider Performance Oversight Policy*, dated November 19, 2020
- OPS Document Number 180, *Plan Disbursements Policy*, dated May 8, 2018
- OPS Document Number 190, *OPS Government Shutdown Operations Policy*, dated August 27, 2019
- Technology and Enterprise Support Services *Requirements Document for Cash Management Investment Converge Tasks*, dated January 5, 2022

TSP Managed Service Providers Documents

- *Converge Accounting Reconciliations Standard Operating Procedure (SOP)*, dated January 2022
- *Converge Distribution Requirements Document*, approved by the Agency in March 2021
- *Converge General Purpose Loan Promissory Note SOP*, dated January 2022
- *Converge In-Service Withdrawal Requirements Document*, approved by the Agency in March 2021
- *Converge Loan Delinquency Report and Notice Review SOP*, dated January 2022
- *Converge Loan Requirements Document*, approved by the Agency in March 2021
- *Converge One-Time Loan Direct Debit Processing SOP*, dated January 2022
- *Converge Partial/Early Loan Payoff Invoice Check Processing SOP*, dated January 2022
- *Converge Payment Instruction File SOP*, dated January 2022
- *Converge Primary Residence Loan Application SOP*, dated January 2022
- *Converge Proposed Code of Federal Regulation Changes*, provided on January 11, 2022
- *Converge Taxed Loan Payoff Invoice, TSP Loan Delinquency/Max Loan Term Check Processing*,

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

Loan Coupons Check Processing, Separation from Employment Notice SOP, dated January 2022

- *Converge TSP Forms & USPS Non-Pay Status File SOP*, dated January 2022
- *Converge Withdrawal Consent Form SOP*, dated January 2022