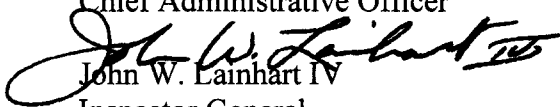


John W. Lainhart IV
Inspector General

Office of Inspector General
U.S. House of Representatives
Washington, DC 20515-9990

MEMORANDUM

TO: James M. Eagen III
Chief Administrative Officer

FROM: 
John W. Lainhart IV
Inspector General

DATE: December 29, 1998

SUBJECT: Audit Report – Administration Of The House’s Thrift Savings Plan
Requires Only Minor Improvements (Report No. 98-CAO-21)

This is our final report on the audit of the administration of the Thrift Savings Plan (TSP) at the U.S. House of Representatives (House). The objectives of this audit were to determine whether the House (1) was complying with Federal Employees’ Retirement System Administration and TSP regulations and bulletins, (2) had an adequate system of internal controls to prevent or detect TSP processing errors, (3) had sufficient procedures in place to ensure that all eligible employees have been identified and informed of their TSP benefits, and (4) submitted information timely to restore earnings lost due to employer error.

In response to our July 9, 1998 discussion draft report, your office concurred with our findings and recommendations. The November 9, 1998 management response is incorporated in this final report and included in its entirety as an appendix. The actions taken by the Chief Administrative Officer are responsive to the issues identified and satisfy the intent of all three recommendations. Thus, we consider the recommendations closed.

We appreciate the courtesy and cooperation extended to us by your staff. If you have any questions or require additional information regarding this report, please call me or Robert B. Frey III at (202) 226-1250.

cc: Speaker of the House
Majority Leader of the House
Minority Leader of the House
Chairman, Committee on House Oversight
Ranking Minority Member, Committee on House Oversight
Members, Committee on House Oversight

**ADMINISTRATION OF THE
HOUSE'S THRIFT SAVINGS PLAN
REQUIRES ONLY MINOR IMPROVEMENTS**

*Report No. 98-CAO-21
December 29, 1998*

RESULTS IN BRIEF

CONCLUSIONS

Overall, we were able to test and verify that the information generated in the U.S. House of Representatives (House) Payroll System agreed with the participant information per the personnel files and in the Thrift Savings Plan (TSP) database at the National Finance Center¹ (NFC) for 1997. We also concluded that the House is in compliance with Federal Employees' Retirement System Act (FERSA) and TSP regulations and bulletins and adequate procedures are in place to ensure that all eligible employees have been identified and informed of their TSP benefits. However, we noted the following deficiencies, which could provide opportunities for improvement.

The separation of duties in the House's Payroll Office is not adequate for internal control purposes—creating the potential for errors and abuses. In addition, the Payroll Office does not consistently submit lost earnings information to the NFC on a timely basis. This situation can cause inaccurate participant statements and create additional workload for the Payroll Office. We also found that TSP *Lists of Loan Payment Allotment Forms* (with Forms TSP-22 attached) and single Forms TSP-22 are not date-stamped and logged upon receipt to ensure proper tracking. As a result, the Payroll Office is unable to determine if loan repayment payroll deductions began in a timely manner or if the Forms TSP-22 were even received.

The House's Office of Finance does not prepare a reconciliation of the TSP special clearing accounts at the Department of Treasury to House financial reports. The lack of such reconciliations results in uncleared amounts not being properly investigated and posted to the accounting system.

RECOMMENDATIONS

We recommend that the Chief Administrative Officer: (1) amend the current Payroll Office procedures to ensure adequate segregation of duties for TSP-related transactions; (2) amend the

¹The U.S. Department of Agriculture's National Finance Center provides record keeping services to the TSP.

current Payroll Office procedures to ensure that lost earnings are calculated and submitted to the NFC within 30 days; and (3) establish procedures to ensure that the Office of Finance performs monthly reconciliations of the TSP clearing accounts to the related Department of Treasury records.

MANAGEMENT RESPONSE

In the Chief Administrative Officer's November 9, 1998 response to our draft report, the CAO concurred with our findings and all three recommendations (see Appendix). According to the response, actions were taken to: (1) update the TSP procedures to include additional requirements to ensure adequate segregation of duties for TSP-related activities, (2) revise the TSP procedures to include appropriate steps to ensure that lost earnings are calculated and submitted to the NFC within 30 days, and (3) develop procedures for reconciling the House's Payroll Department and NFC documents with the appropriate TSP clearing account data on the Department of Treasury's monthly 6653/6654 reports.

OFFICE OF INSPECTOR GENERAL COMMENTS

The actions taken by the CAO are responsive to the issues identified and satisfy the intent of all three recommendations. Thus, we consider the recommendations closed.

TABLE OF CONTENTS

TRANSMITTAL MEMORANDUM

RESULTS IN BRIEF

I. INTRODUCTION

Background.....1

Objectives, Scope, And Methodology1

Internal Controls2

Prior Audit Coverage.....2

II. FINDINGS AND RECOMMENDATIONS

Finding A: Internal Controls Over TSP Activities Within The Payroll Office
Could be Improved3

Finding B: The Office of Finance Does Not Reconcile Its TSP
Special Clearing Accounts.....6

III. EXHIBIT

Exhibit: Status Of Implementation Of Prior Audit Report
Recommendations7

IV. APPENDIX

Appendix: CAO Management Response To The Draft Report

This Page Intentionally Left Blank

I. INTRODUCTION

Background

The Federal Employees' Retirement System Act of 1986 (FERSA) established the Federal Retirement Thrift Savings Plan (TSP). The TSP is a basic component of the Federal Employees' Retirement System (FERS). The TSP provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings.

As named fiduciaries, the Federal Retirement Thrift Investment Board (FRTIB) and its Executive Director administer the TSP. The U.S. Department of Agriculture's National Finance Center (NFC) entered into an agreement with the FRTIB to provide record keeping services to the TSP.

Within the U.S. House of Representatives (House), the Office of Human Resources is responsible for administering the TSP and serves as the liaison with the NFC. Specifically, most duties performed relating to TSP operations are performed by the House's Payroll and Personnel Offices.

The Payroll Office is responsible for maintaining and processing employees' payroll. In relation to TSP, these responsibilities include (1) changing employee payroll file data after being notified of employment status change; (2) computing the agency automatic (1 percent) and matching contributions; (3) distributing employee and employer contributions among the three TSP funds; (4) preparing and submitting the employee contribution data and Forms TSP-2 to the NFC TSP record keeper (TSP record keeper); (5) preparing and submitting loan repayment data and other input for submission to the TSP record keeper; (6) preparing adjustments and corrections as necessary; (7) reconciling the data submitted to the TSP record keeper to the TSP payroll data processed; and (8) providing the House's Office of Finance with information necessary to accurately account for TSP activity.

The Personnel Office serves as the primary liaison for TSP participants while they are employed. The Personnel Office is responsible for (1) informing House employees of TSP programs and activities; (2) providing and receiving election and separation information; (3) reviewing the submitted forms for accuracy, eligibility, and propriety; (4) submitting TSP information, including separation codes and dates, to the House's Payroll Office; (5) responding to employee inquiries about TSP; and (6) assisting the Payroll Office in researching and correcting inaccurate information submitted to the TSP record keeper. The Personnel Office is also responsible for ensuring that all participants elect only those options for which they qualify, all information submitted to the Payroll Office is complete and accurate, and certain employment status changes are captured and reported to the Payroll Office. The Personnel Office maintains employee election and withdrawal forms and distributes TSP information throughout the year.

Objectives, Scope, And Methodology

The objectives of this audit were to determine if the House is in compliance with FERSA and TSP regulations and bulletins, has an adequate system of internal controls to prevent or detect TSP processing errors, has sufficient procedures in place to ensure that all eligible employees

have been identified and informed of their TSP benefits, and submits information timely to restore earnings lost because of employer error. The overall scope of our audit was to review the administration of TSP within the House, Office of Human Resources during the 105th Congress through December 31, 1997. We coordinated with the NFC to obtain sample items for House employees from the NFC TSP data base.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We identified and documented relevant House policies and procedures, including key controls, for (1) account maintenance and contributions, (2) loans, (3) withdrawals, and (4) participant support cycles by conducting interviews with Payroll and Personnel Office personnel and reviewing applicable policy and procedures manuals. We then performed testwork over each cycle to determine that the policies and procedures were properly functioning during 1997 and that the House had complied with FERSA and TSP regulations and bulletins. We addressed key reconciliations and unusual account data in each cycle, as appropriate.

Internal Controls

We reviewed and documented the internal controls related to TSP operations over the four cycles identified above. The "Findings and Recommendations" section of this report describes the internal control deficiencies we identified.

Prior Audit Coverage

The U.S. Department of Labor's Pension and Welfare Benefits Administration (PWBA) issued an audit report, *Full-Scope Fiduciary Compliance Review of the Thrift Savings Plan Operations at the U.S. House of Representatives*, dated December 7, 1992. The PWBA subsequently issued *Follow-Up Fiduciary Compliance Review of the Thrift Savings Plan Operations at the U.S. House of Representatives*, dated August 16, 1996, which reviewed the status of the 1992 PWBA recommendations. The August 16, 1996 report included seven recommendations. The House has completed actions on six of these recommendations and the seventh has been otherwise resolved. The Exhibit at the end of this report provides a summary of the implementation status of each of these recommendations.

II. FINDINGS AND RECOMMENDATIONS

Finding A: Internal Controls Over TSP Activities Within The Payroll Office Could Be Improved

The separation of duties in the Payroll Office is not adequate for internal control purposes-- which creates the potential for errors and abuses. In addition, the Payroll Office does not consistently submit lost earnings information to the NFC on a timely basis. This situation can cause inaccurate participant statements and create additional workload for the Payroll Office. We also found that TSP *Lists of Loan Payment Allotment Forms* (with Forms TSP-22 attached) and single Forms TSP-22 are not date-stamped and logged upon receipt to ensure proper tracking. As a result, the Payroll Office is unable to determine if loan repayment payroll deductions began in a timely manner or if the Forms TSP-22 were even received. These deficiencies are caused by a lack of adequate procedures.

Separation of duties in the Payroll Office is not adequate for internal control purposes

The House Payroll Counselor has sole responsibility for receipt, entry, update, and correction of TSP entries without supervisory review or independent reconciliation. The House Payroll Office employee making an entry (and possibly the original error) receives the error reports, corrects the errors/adjustments, sends the reply if necessary, and forwards the documents for inclusion in the FileNet System², without benefit of an independent control step, allowing for potential errors and abuses.

According to the Payroll Office Supervisor, staff reductions in 1995 of nine staff persons to the current level of six staff persons caused a change in office procedures, giving total control of the TSP-related payroll processes to one individual without separation of duties or a backup verification/reconciliation system. However, to maintain effective internal control of the TSP account maintenance process, duties must be sufficiently separated to ensure that no single individual controls all parts of the process. For example, the supervisor or another payroll counselor should periodically review adjustments, delete reports, loan summaries, and other reports for timeliness, accuracy, and completeness.

The Payroll Office does not submit lost earnings information to the NFC on a timely basis

Once the Payroll Office discovers a TSP-related error, the participant's account is immediately corrected in the House database. However, for five of eight 1997 sample items, the Payroll Office did not send the appropriate information to the NFC until approximately five months after discovering the error. This situation can cause inaccurate participant statements and create additional workload for the Payroll Office. As a result of the delay, the Payroll Office employee must compile and calculate additional lost earnings data in order to correct the error in the NFC TSP database. Also, during the delay period, the interest on lost earnings that the House must pay to correct the error compounds.

²The FileNet System is an imaging system used in the Office of Human Resources. It contains official personnel files, including benefit enrollment forms, for all House employees.

The Payroll Office should begin submitting lost earnings information to the NFC within 30 days after discovery to ensure compliance with 5 CFR Part 1605 and to ensure that participants' lost earnings are calculated and corrected timely. By calculating lost earnings in a timely manner, the Payroll Office will reduce the amount of work required to complete the lost earnings process and the amount of money that the agency is subsequently reimbursing the participant.

According to Payroll Office personnel, the decrease in staff persons during 1995 affected the timeliness of submitting information to the NFC, and this staff decrease has led the Payroll Office to designate TSP lost earnings calculations as a low priority. Because of this low priority, Payroll Office personnel complete calculations when feasible, typically when all other work is completed. Only one employee in the Payroll Office is designated to perform lost earnings calculations.

TSP Lists of Loan Payment Allotment Forms (with Forms TSP-22 attached) and single Forms TSP-22 do not ensure proper tracking

We found that the individually received loan allotment authorization forms (Forms TSP-22), which authorize the commencement of loan repayments, are neither date-stamped nor logged by the Payroll Office. We also found that the *TSP Lists of Loan Payment Allotment Forms*, which include Forms TSP-22 not previously submitted, were not date-stamped for January, March, or April 1997. Comparison of the date-stamps to the date of entering the repayment amount into the Payroll System for House employees, which would initiate the repayment payroll deduction process, is the only viable means of determining the timeliness of Forms TSP-22 input into the Payroll System. As a result, the Payroll Office is unable to determine if loan repayment payroll deductions began in a timely manner or if the Forms TSP-22 were even received.

The TSP record keeper approves and processes participant loans. Once the loan disbursement is made, the NFC sends the Form TSP-22 to the Payroll Office to authorize the commencement of loan repayments. Approximately once a month, the Payroll Office receives from the NFC a *TSP List of Loan Payment Allotment Forms* with new Forms TSP-22 attached. Once the *TSP List of Loan Payment Allotment Forms* is received, the Payroll Counselor normally stamps the time of receipt and verifies that all Forms TSP-22 listed on the summary are attached. In case of missing Forms TSP-22, the Payroll Office contacts the NFC to resolve the issue. The Payroll Counselor then enters the repayment amount into the Payroll System, annotates the date of entry on the *TSP List of Loan Payment Allotment Forms*, files the *TSP List of Loan Payment Allotment Forms* in the Payroll Office, and forwards the Form TSP-22 to the Personnel Office to be scanned into the employee's file in the FileNet System. The NFC also sends separate Forms TSP-22 to the House either via facsimile or mail outside the normal *TSP List of Loan Payment Allotment Form* process.

Although the Payroll Office's operational procedures manual, entitled *Procedures Manual and General Information*, addressed TSP procedures, it did not specifically require its staff to date-stamp the *TSP List of Loan Payment Allotment Forms* received from the NFC or to track (via date-stamp and/or log book) Forms TSP-22 as they arrive either by mail or facsimile. Documented procedures are necessary to enable the Payroll Office to accurately account for the date of receipt of Forms TSP-22 and the initial loan deduction. The documented procedures

should ensure that the Payroll Counselor (1) date-stamps all TSP *Lists of Loan Payment Allotment Forms* upon receipt, (2) copies the single Forms TSP-22, date stamps them, circles the payment amount, annotates the entry date into the Payroll System, (3) files the copy with the periodic summary (i.e., the *TSP List of Loan Payment Allotment Forms*), and (4) prepares a summary log of all Forms TSP-22 received and entered into the Payroll System.

We discussed these deficiencies and the need for specific written procedures with Payroll Office personnel. Payroll management agreed with the procedures identified and promptly incorporated them into the TSP section of their operational procedures manual. These procedures were implemented in March 1998 and should sufficiently address the deficiencies identified. Accordingly, we are not making a recommendation to address these issues.

Recommendations

We recommend that the Chief Administrative Officer:

1. Amend the current Payroll Office procedures to ensure adequate segregation of duties for TSP-related transactions.
2. Amend the current Payroll Office procedures to ensure that lost earnings are calculated and submitted to the NFC within 30 days.

Management Response

The CAO concurred with this finding and both recommendations (see Appendix). According to the response, the Office of Human Resources revised the TSP procedures to include:

- (1) additional requirements to ensure adequate segregation of duties for TSP-related activities, and
- (2) appropriate steps to ensure that lost earnings are calculated and submitted to the NFC within 30 days.

Office of Inspector General Comments

Relative to Recommendation 1, the new TSP procedures incorporate new compensating controls, such as supervisory oversight and follow-up reviews, which will mitigate our concerns over separation of duties. Regarding Recommendation 2, the new TSP procedures specifically mandate calculation and submission of lost earnings resulting from errors to the NFC within 30 days. In addition, the procedures require that, immediately upon detection, the information on lost earnings be posted in a central database file. Also, another payroll staff member is required to perform a monthly review of actions taken on lost earnings to ensure that the appropriate information is submitted to NFC within 30 days. These actions are responsive to the issues identified and satisfy the intent of the recommendations. Thus, we consider the recommendations closed.

Finding B: The Office of Finance Does Not Reconcile Its TSP Special Clearing Accounts

The Office of Finance does not prepare a reconciliation of the TSP special clearing accounts at the Department of Treasury to House financial reports. The lack of such reconciliations results in uncleared amounts not being properly investigated and posted to the accounting system. For example, we noted for the months of March and June 1997, the uncleared balances for Treasury account symbol F3875 was \$10,671 and \$15,825, respectively. These reconciliations will enable the Office of Finance to investigate the nature of any uncleared TSP transactions and ensure the proper recording of TSP-related amounts.

A typical procedure in a sound control environment is the timely investigation and resolution of items in clearing accounts. The Office of Finance receives two reports from the U.S. Department of Treasury--TFS 6653, *Undisbursed Appropriation Account Ledger (Monthly)*, and TFS 6654, *Undisbursed Appropriation Account Trial Balance (Year-To-Date)*. Certain Treasury account symbols on these reports represent the House's special TSP clearing accounts.

We determined that the reconciliations were not being performed due to miscommunications between the Office of Finance and the Payroll Office. Each office thought the other was performing the required reconciliations.

Recommendation

We recommend that the Chief Administrative Officer establish procedures to ensure that the Office of Finance performs monthly reconciliations of the TSP clearing accounts to the related Department of Treasury records.

Management Response

The CAO concurred with this finding and recommendation (see Appendix). As of July 31, 1998, the Finance Office Accounting Department completed developing procedures for reconciling the House's Payroll Department and NFC documents with the TSP clearing account 00F3875.4 data on the Department of Treasury's monthly 6653/6654 reports. Upon receipt of these reports, reconciliations are completed approximately 45 days after each month end. The reconciliations are reviewed and approved by the Accounting Director. The response further indicated that monthly reconciliations have been completed through August 31, 1998.

Office of Inspector General Comments

The actions taken are responsive to the issues identified and satisfy the intent of the recommendation. Thus, we consider this recommendation closed.

EXHIBIT

Status Of Implementation Of Prior Audit Report Recommendations

Recommendation Number	RECOMMENDATIONS ACTIONS COMPLETED TO DATE ACTIONS NEEDED FOR CLOSURE	STATUS TARGET DATE
Department of Labor's Pension and Welfare Benefits Administration Audit Report, entitled <i>Follow-Up Fiduciary Compliance Review of the Thrift Savings Plan Operations at the U.S. House of Representatives</i>, dated August 16, 1996.		
1	RECOMMENDATION: Review all participant accounts listed on the Report of Dormant Accounts for propriety. ACTIONS COMPLETED TO DATE: The House Payroll Office has not received a Report of Dormant Accounts from the Federal Retirement Thrift Investment Board (FRTIB) since the 1992 PWBA audit. The FRTIB indicated to PWBA that the report would be issued to all agencies in August 1996; however, these reports were never issued and are not currently available. Once FRTIB distributes this or a similar report, the House plans to review all participant accounts listed for propriety.	Otherwise Resolved
2	RECOMMENDATION: Evaluate assigning annually payroll and personnel representatives to the FRTIB's formal TSP training seminars. ACTIONS COMPLETED TO DATE: The Personnel Office TSP Manager and TSP staff attend FRTIB sponsored training sessions on a monthly and quarterly basis.	Actions Completed
3	RECOMMENDATION: Implement control procedures to have payroll staff verify that annuitant employees are receiving the correct amount of agency automatic contributions. ACTIONS COMPLETED TO DATE: As part of current Payroll Office procedures, the Payroll Counselor verifies that annuitants are receiving the correct amount of contributions on a monthly basis.	Actions Completed
4	RECOMMENDATION: Credit all applicable participants' TSP accounts with the missed portion of agency automatic contributions, plus lost earnings. ACTIONS COMPLETED TO DATE: The Payroll Office made the appropriate retroactive adjustments for missed contributions as soon as the office was informed of the situation.	Actions Completed

EXHIBIT

Recommendation Number	RECOMMENDATIONS ACTIONS COMPLETED TO DATE ACTIONS NEEDED FOR CLOSURE	STATUS TARGET DATE
5	<p>RECOMMENDATION: Submit a forfeiture restoration request to the TSP record keeper for the TSP participants noted in Section IV, "TSP Database Extract Report Results."</p> <p>ACTIONS COMPLETED TO DATE: The Payroll Office made the appropriate forfeiture restorations as soon as the office was informed of the situation.</p>	Actions Completed
6	<p>RECOMMENDATION: Enhance current procedures to ensure that the Personnel Office properly calculates TSP Service Computation Dates (TSP-SCDs).</p> <p>ACTIONS COMPLETED TO DATE: The Personnel Office did update the policies and procedures for TSP SCD calculations during Fiscal Year 1997 and currently has Retirement Administrators assigned to perform spot audits over TSP SCDs for accuracy.</p>	Actions Completed
7	<p>RECOMMENDATION: Evaluate performing periodic reviews of the House TSP operations.</p> <p>ACTIONS COMPLETED TO DATE: The House Office of Inspector General has informed Department of Labor's Pension and Welfare Benefits Administration that it will perform all needed reviews/audits of House TSP operations, starting with this audit.</p>	Actions Completed

James M. Eagen III
Chief Administrative Officer

**Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515-6860**

MEMORANDUM

To: John Lainhart
Inspector General

From: Jay Eagen
Chief Administrative Officer

Subject: CAO Response to TSP Audit Report Entitled "Administration of the House's Thrift Savings Plan Can Be Improved"

Date: NOV 09 1993

Thank you for the opportunity to comment on the TSP Audit Report. We have carefully reviewed the recommendations in the draft report and are in support of them. Our specific comments and response to each recommendation are provided below:

Finding A: Internal Controls Over TSP Activities Within The Payroll Office Could Be Improved

Recommendation 1 We recommend that the Chief Administrative Officer amend the current Payroll Office procedures to ensure adequate segregation of duties for TSP-related transactions.

CONCUR

The TSP procedures used by the Office of Human Resources have been significantly updated to include among other things, additional requirements to ensure adequate segregation of duties for TSP-related activities. We believe that these procedural changes will fully address the concerns outlined in the audit report and will not require additional staff to implement. A copy of the revised procedures has been made available to staff from the Office of the Inspector General for review and verification.

We believe we have taken appropriate action to close this recommendation.

Recommendation 2 We recommend that the Chief Administrative Officer amend the current Payroll Office procedures to ensure that lost earnings are calculated and submitted to the NFC within 30 days.

CONCUR

The recently revised TSP procedures provided to the Office of the Inspector General also now include appropriate steps to ensure that lost earnings are calculated and submitted to the NFC within 30 days.

We believe we have taken appropriate action to close this recommendation.

Finding B: The Office of Finance Does Not Reconcile Its TSP Special Clearing Accounts

Recommendation 1 We recommend that the Chief Administrative Officer establish procedures to ensure that the Office of Finance performs monthly reconciliations of the TSP clearing accounts to the related Department of Treasury records.

CONCUR

Effective July 31, 1998, the Finance Office Accounting Department completed development of procedures for reconciling the House's Payroll Department and National Finance Center documents with the Thrift Savings Plan (TSP) clearing account 00F3875.4 reported on Treasury's monthly 6653/6654. Reconciliations are completed upon receipt of Treasury's 6653/6654, which is approximately 45 days after each month end. The reconciliations are reviewed and approved by the Accounting Director. Finally, monthly reconciliations have been completed through August 31, 1998.

A copy of the procedures used by the Office of Finance to reconcile the TSP clearing accounts has also been made available to staff from the Office of the Inspector General for review and verification.

We believe we have taken appropriate action to close this recommendation.