



# **Employee Benefits Security Administration**

## **Performance Audit of Certain Thrift Savings Plan Operations at the Defense Finance and Accounting Service**

**As of May 22, 2013**

## TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
<b>EXECUTIVE SUMMARY</b>	i
<b>I. BACKGROUND OF THE TSP AND DFAS' OPERATIONS AS UNIFORMED SERVICES' PAYROLL SERVICE PROVIDER</b>	
A. The Thrift Savings Plan	I.1
B. Overview of DFAS as Uniformed Services' Payroll Service Provider	I.1
C. TSP Account Maintenance Activities at DFAS	I.3
D. TSP Loan Overview and Loan Payment Processing at DFAS	I.7
E. TSP Separations and Withdrawals Processing at DFAS	I.7
F. TSP Uniformed Services Statistics	I.8
<b>II. OBJECTIVE, SCOPE AND METHODOLOGY</b>	
A. Objective	II.1
B. Scope and Methodology	II.1
<b>III. FINDINGS AND RECOMMENDATIONS</b>	
A. Introduction	III.1
B. Findings and Recommendations from Prior Reports	III.2
C. 2013 Findings and Recommendations	III.12
D. Summary of Open Recommendations	III.18
<u>Appendices</u>	
A. DFAS Response to the Draft Report	
B. Key Documentation and Reports Reviewed	

## EXECUTIVE SUMMARY

Director of the Defense Finance and Accounting Service (DFAS)  
DFAS Indianapolis

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

As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of certain Thrift Savings Plan (TSP) account maintenance, loans, and withdrawal operations at the Defense Finance and Accounting Service (DFAS). DFAS operates as both an employing federal agency and as a payroll service provider for federal agencies and uniformed services. This performance audit covered the TSP operations of DFAS related to its role as a payroll service provider for uniformed services. We performed our fieldwork from February 4 through May 22, 2013, primarily at DFAS Indianapolis and DFAS Cleveland. Our scope period for testing was January 1, 2012, through December 31, 2012.

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 audit 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, and Code of Federal Regulations (CFR) Title 5, Chapter VI.

The objectives of our audit over the DFAS TSP payroll operations related to uniformed service members were to:

- Determine whether DFAS implemented certain procedures to (1) calculate and process uniformed service member contributions and loan payments accurately and timely in accordance with the member's elections, (2) prevent member contributions for a period of six months after the member obtains a financial hardship in-service withdrawal, (3) properly characterize uniformed service member TSP contributions as tax-deferred, tax-exempt, or Roth, (4) process breakage and other adjustments owed by the uniformed services to the TSP, and (5) reconcile contributions reported to the TSP to U.S. Department of the Treasury (Treasury) clearing accounts.
- Test compliance of DFAS' TSP operations related to uniformed service members with United States Code Chapter 5, Sections 8432(a)(2), 8432(D)(d), and 8432(D)(f) (hereinafter referred to as FERSA), and Code of Federal Regulation (CFR) Title 5, Part 1600.12(c – e), 5 CFR 1600.19(b), 5 CFR 1600.21(b), 5 CFR 1600.22, and 5 CFR 1655.14 (hereinafter referred to as Agency Regulations).
- Determine the status of all prior EBSA TSP open recommendations related to DFAS reported in the *Employee Benefits Security Administration Review of the Thrift Savings Plan Operations Related to the United States Army dated July 21, 2006*.

Our audit resulted in four new findings and recommendations related to TSP operations at DFAS, two addressing fundamental controls and two addressing other controls. Fundamental control recommendations address significant procedures or processes that have been designed and operated to reduce the risk that material intentional or unintentional processing errors could occur without timely detection or that assets are inadequately safeguarded against loss. Other control recommendations address procedures or processes that are less significant than fundamental controls. Section III.C presents the details that support the current year findings and recommendations.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2012 through December 31, 2012 DFAS implemented certain procedures to (1) calculate and process uniformed service member contributions and loan payments accurately and timely in accordance with the member's elections, (2) prevent member contributions for a period of six months after the member obtains a

financial hardship in-service withdrawal, (3) properly characterize uniformed service member TSP contributions as tax-deferred, tax-exempt, or Roth, (4) process breakage and other adjustments owed by the uniformed services to the TSP, and (5) reconcile contributions reported to the TSP to Treasury clearing accounts. However, we noted internal control weaknesses in certain areas that could adversely affect TSP operations at DFAS as the payroll service provider for uniformed services. As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA or Agency Regulations in DFAS' TSP operations related to uniformed service members.

We also reviewed the 11 prior EBSA recommendations related to TSP operations at DFAS to determine their current status. These prior year recommendations were reported in *Employee Benefits Security Administration Review of the Thrift Savings Plan Operations Related to the United States Army dated July 21, 2006*. Section III.B documents the status of these prior recommendations. In summary, ten DFAS-related recommendations have been closed and one remains open, as follows:

- Four recommendations have been implemented and closed;
- Three recommendations have been partially implemented and closed, with remaining elements incorporated into current year recommendations;
- Two recommendations have not been implemented but have been closed;
- One recommendation has not been implemented but has been closed and incorporated into a current year recommendation; and
- One recommendation has been partially implemented and remains open.

DFAS' responses to the recommendations are included as an appendix within the report (Appendix A). DFAS concurred with all recommendations.

This performance audit did not constitute an audit of the TSP's or DFAS' financial statements in accordance with *Government Auditing Standards*. KPMG was not engaged to, and did not render an opinion on DFAS' internal controls over financial reporting or over financial management systems (for purposes of the Office of Management and Budget's Circular No. A-127, *Financial Management Systems*, July 23, 1003, as revised). 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.

**KPMG LLP**

July 19, 2013

## **I. BACKGROUND OF THE TSP AND DFAS' OPERATIONS AS UNIFORMED SERVICES' PAYROLL SERVICE PROVIDER**

### **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 Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions on April 1, 1987, and as of March 31, 2013, had approximately \$346 billion in assets and approximately 4.6 million participants<sup>1</sup>.

In April 2012, the TSP began offering a Roth option, allowing after-tax contributions to the TSP. The Marine Corps offered the Roth option beginning in June 2012, while the Army, Navy, and Air Force offered Roth to active duty members beginning in October 2012. Roth implementation for Army, Navy, and Air Force reserve members is planned for late 2013. As of March 31, 2013, the TSP had approximately \$286 million in Roth-related assets and approximately 170,000 Roth participants.<sup>2</sup>

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 (the Agency) is responsible for administering TSP operations.

### **B. Overview of DFAS as Uniformed Services' Payroll Service Provider<sup>3</sup>**

DFAS is an agency within the Department of Defense (DoD) charged with providing finance and accounting support to the DoD and its components around the world. DFAS' mission is to "lead DoD in finance and accounting by ensuring the delivery of efficient, exceptional quality pay and

---

<sup>1</sup> Source: Minutes of the April 22, 2013, Federal Retirement Thrift Investment Board meeting, posted on [www.frtib.gov](http://www.frtib.gov).

<sup>2</sup> Source: Minutes of the April 22, 2013, Federal Retirement Thrift Investment Board meeting, posted on [www.frtib.gov](http://www.frtib.gov).

<sup>3</sup> Sources: [www.DFAS.mil](http://www.DFAS.mil) and DFAS MilPay standard operating procedures and flowcharts related to TSP processing.

financial information." DFAS is the payroll service provider to all DoD uniformed services personnel.

**1. Organization of DFAS’ Military Payroll Function**

DFAS’s military payroll (MilPay) function is responsible for processing payroll and benefits contributions, including TSP contributions, for uniformed services personnel. MilPay operations are organized into dedicated teams that serve Army active duty members, Army reserve members, Air Force active duty members, Air Force reserve members, Navy active duty members, Navy reserve members, and the Marines (both active and reserves). MilPay operations are supported by other DFAS functions, such as accounting and Enterprise and Systems Support (ESS), which operates DFAS’ pay systems. The following table displays the geographic locations of MilPay operations.

<b>DFAS Indianapolis</b>	<b>DFAS Cleveland</b>
<p><b>Army Active Duty</b>  <b>Army Reserves</b>  <b>Air Force Active Duty</b>  <b>Air Force Reserves</b></p>	<p><b>Navy Active Duty</b>  <b>Navy Reserves</b>  <b>Marine Corps (Active and Reserves)</b></p>

**2. DFAS Pay Systems**

DFAS uses the following three pay systems to process payroll and benefits for the uniformed services:

- Defense Joint Military Pay System – Active Component (DJMS-AC)
- Defense Joint Military Pay System – Reserve Component (DJMS-RC)
- Marine Corps Total Force System (MCTFS)

DJMS-AC is the pay system for the Army, Air Force, and Navy active duty members. The system is located at DFAS Indianapolis. DJMS-RC is the pay system for the Army, Air Force, and Navy reserves components, and is also located at DFAS Indianapolis. MCTFS is the pay system for all Marine Corps members and is located in a facility in Indianapolis.

## **C. TSP Account Maintenance Activities at DFAS<sup>4</sup>**

### **1. TSP Elections**

Uniformed service members may elect to make traditional, tax deferred TSP contributions. In addition, active duty Army, Navy, and Air Force members could begin making after-tax Roth elections in October 2012, with the first contributions occurring in November 2012, and Marine Corps members were eligible to make Roth elections in June 2012, with the first contributions occurring in July 2012.

Uniformed service members elect a percentage of basic pay, up to 100 percent, to contribute to traditional TSP accounts. The members may also elect to contribute up to 100 percent of special, bonus, and incentive pay, as long as the members also contribute at least 1 percent of basic pay. Army, Navy and Air Force active duty service members elect a dollar amount of their pay to contribute to Roth accounts, while Marine Corps members elect a percentage of pay to contribute to Roth accounts. The service members may change their contribution elections at any time.

A participant's total traditional TSP and Roth contributions cannot exceed the Internal Revenue Code (IRC) 402(g) annual elective deferral limit, which was \$17,000 in 2012. However, catch-up contributions are payroll deductions that participants who are age 50 or older may be eligible to make in addition to regular participant contributions. These contributions are voluntary and can be either traditional or Roth. To be eligible to make catch-up contributions, the participant must already be contributing an amount that will reach the IRC elective deferral limit by the end of the year. Catch-up contributions are subject to a catch-up contribution limit, separate from the IRC's elective deferral limit, which was \$5,500 for 2012.

### **2. TSP Elections Processing and Submission to the TSP System**

A service member initiates a TSP contribution by making a TSP election in one of the following ways:

---

<sup>4</sup> Sources: [www.DFAS.mil](http://www.DFAS.mil), [www.tsp.gov](http://www.tsp.gov), Form TSP-U-1, *TSP Summary Brochure* (May 2012), and DFAS MilPay standard operating procedures and flowcharts related to TSP processing.

- The service member can log into *myPay*, a DFAS front-end application that provides service members a display mechanism into DJMS-AC, DJMS-RC, and MCTFS. This application allows users to view, enter, or modify certain personnel and payroll-related information, such as name, address, and benefits information, including TSP elections. *myPay* interfaces with DJMS-AC, DJMS-RC and MCTFS via a nightly batch.
- Army service members stationed in the United States can complete a Form TSP-U-1, *Election Form*, and submit it to the Defense Military Pay Office (DMPO) at their base or location. Based on the completed form, DMPO personnel enter the TSP elections into the Defense MilPay Office system (DMO). DMO interfaces with DJMS-AC and DJMS-RC via nightly batch. Army DMPOs and the DMO are “DFAS-owned.”
- For the active and reserve components of the Navy, Air Force, and Marine Corps, as well as Army overseas locations, service members submit their Forms TSP-U-1 to their service’s local field personnel office. These field offices are not “owned” by DFAS; they are owned by the service. Based on the completed forms, the services’ field personnel enter the TSP elections into their respective personnel systems. These systems interface with the applicable payroll systems via nightly batch to provide TSP elections (and other data).

TSP elections, along with certain other service member information, interface from the pay systems into the TSP recordkeeping system (TSP system). This information establishes the TSP’s employee data record (EDR). The EDR contains non-financial personnel information relevant to the TSP for purposes of managing the participant’s TSP account, such as TSP elections, service member name, and mailing address. The EDR is maintained within the TSP system. Updates to the EDR occur when a member updates personal information or contributions elections via *myPay* or hard-copy forms as described above, or when DFAS processes changes to other personnel information, such as employment code or employment status.

### **3. TSP Contributions Processing**

The main drivers of a service member’s TSP contributions are the service member’s TSP contribution elections, as discussed above, and pay. Basic pay is a function of the service member’s pay grade and years of service. Other types of pay are received as the service member qualifies for them. DJMS-AC, DJMS-RC, and MCTFS run routines using built-in pay tables to automatically calculate basic and other types of pay. DFAS publishes military pay tables on its website.

DFAS MilPay operations personnel within each component submit TSP contributions and other TSP adjustments to the TSP system via a daily transfer of funds journal voucher through the Form TSP-U-2, *Certification of Transfer of Funds Journal Voucher*, on TSP.gov. Each component processes its own voucher any time a TSP contribution or adjustment must be made, which approximates a daily frequency.

Service members' TSP contributions are processed on a daily voucher occurring near or immediately after month-end for the active duty Army, Navy, Air Force, and Marine Corps members because these service members are typically paid monthly. Army, Navy, Air Force, and Marine Corps reserves, and some active Air Force members, are paid at various points (i.e., codes) throughout each month. The codes correspond to when the member was activated during the month for training or other duties, for example. Therefore, these TSP contributions are processed on the daily voucher that corresponds to the payroll submission for each code.

The TSP system requires all voucher submissions to be electronically signed by the preparer and a certifier. DFAS MilPay operations technicians typically prepare the vouchers, while lead technicians or supervisors certify the vouchers. The preparer and certifier cannot be the same user. The Agency manages the TSP.gov application, the TSP system, and the TSP system access rights.

#### **4. TSP Reject Reports**

After each voucher submission, the TSP system rejects any transactions that triggered a discrepancy between the EDR in the TSP system and the data submitted on the voucher. The rejects are reported back to DFAS on the daily TSP 1701, *Error Report*. Contributions or other adjustments will not process in the TSP system if rejected back to DFAS.

DFAS MilPay operations personnel at each component review the daily TSP 1701 reports and research all rejects that require attention. Those that require attention must be corrected and submitted on another voucher. If the correction is valid, the TSP system will accept the data. If the correction is invalid, it will be rejected again and reported on that night's TSP 1701.

## **5. Breakage and Negative Adjustments**

Uniformed service members may be entitled to breakage when they miss a payment because of DFAS, service, or TSP error and a correction is not made within 30 days. Breakage is a contribution made to the member's TSP account to make the account "whole," considering the missed contribution amount plus or minus any gain or loss that occurred in the market. Participants may identify missed contributions and file a breakage claim with the Agency; participants typically do not file breakage claims directly with DFAS.

The TSP system calculates breakage and reports the amount of breakage claimed from DFAS via the monthly TSP 5014, *Breakage by Agency*, report. The TSP system draws the necessary funds from DFAS' TSP clearing account. During the monthly clearing account reconciliation process, DFAS draws any needed funding from the services to cover breakage or negative adjustments claimed by TSP for each service's members.

The TSP may also process negative adjustments to a service member's TSP account. Negative adjustments occur when members over-contribute to their TSP accounts because of payroll errors, such as receipt of a duplicate bonus, untimely update of hazard pay, or untimely separation processing. The TSP system reports negative adjustments to DFAS via the monthly TSP 30514, *Summary Report of Negative Adjustments Processed*, report. DFAS reconciles negative adjustments processed by the TSP system to DFAS' TSP clearing accounts during its month-end clearing account reconciliation process.

## **6. TSP Clearing Account Reconciliation**

On a monthly basis, DFAS accounting operations reconciles DFAS' TSP clearing account (account F3882) to the balance reported by the U.S. Department of the Treasury (Treasury) on the Government Wide Account statements (GWA) and to reports from the TSP system, including the TSP 1702, *Payroll Office Recap of Journal Voucher Processing*, report. The TSP 1702 presents a monthly summary of contributions processed by the TSP system and negative adjustments and breakages claimed by the TSP during the month. DFAS also reviews the TSP 5014 and TSP 31504 reports, which present breakage and negative adjustments details, respectively, for the month. DFAS accounting operations personnel work with MilPay operations personnel to resolve any differences identified. Differences between DFAS' TSP clearing account and the GWA balance could indicate an adjustment needed to the withholdings

reported to Treasury. Differences between DFAS' TSP clearing account and the TSP 1702 report are typically caused by rejects, breakage, or negative adjustments claimed by the TSP.

#### **D. TSP Loan Overview and Loan Payment Processing at DFAS<sup>5</sup>**

TSP loans allow participants access to the money in their TSP accounts before they retire under certain circumstances. Participants apply and are approved for loans through the Agency. The following criteria must be met for a uniformed services member to obtain a TSP loan:

- Participant has at least \$1,000 of personal contributions and associated earnings in the account;
- Participant is currently a member of the uniformed services (separated or retired members and beneficiary participants are not eligible);
- Member is in pay status because payments are subsequently deducted from the member's pay to repay the loan;
- Member has not repaid a TSP loan of the same type in full within the past 60 days; and
- Member has not had a taxable distribution on a loan within the past 12 months, unless the taxable distribution resulted from the member's separation from Federal service.

Minimum and maximum loan amounts exist. If approved, loans are disbursed from the participant's TSP account, and the TSP system interfaces with DFAS' pay systems to initiate loan payments. DFAS processes loan payments as allotments from a service member's pay until the interface between the TSP and DFAS pay systems triggers a loan payment stop to indicate that the loan has been repaid in full.

#### **E. TSP Separations and Withdrawals Processing at DFAS<sup>6</sup>**

Separations processing occurs similarly to the TSP elections process described in section I.C.2 of this report. Separations from the uniformed services may be initiated at a DFAS-owned Army DMPO or at another service's personnel office. The TSP system updates the EDR as it receives updated employment status information via the interface with the pay systems. DFAS' pay systems interface with the TSP system to automatically trigger TSP contribution stops in the pay systems upon the member's separation from service.

---

<sup>5</sup> Sources: [www.tsp.gov](http://www.tsp.gov), *TSP Summary Brochure* (May 2012), and DFAS MilPay standard operating procedures and flowcharts related to TSP processing.

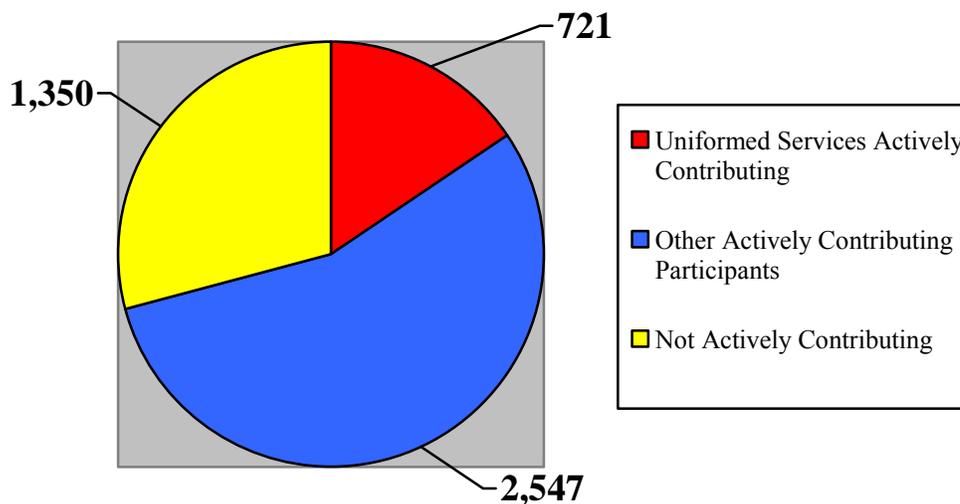
<sup>6</sup> Sources: DFAS MilPay standard operating procedures and flowcharts related to TSP processing.

## F. TSP Uniformed Services Statistics

Actively contributing uniformed services members comprise approximately 16 percent of total TSP participants as of March 31, 2013<sup>7</sup>, as illustrated in Exhibit I-1.

*Exhibit I-1*

**TSP Participation Composition as of March 31, 2013  
(Unaudited)**  
(number of participants, in thousands)



Other active participants shown in the chart above consist of FERS participants receiving agency automatic contributions only and FERS and Civil Service Retirement System participants making their own contributions. The number of uniformed service members actively contributing to the TSP, as a percentage of all TSP participants, has remained consistent since January 1, 2012 (i.e., the beginning of our audit scope period).

Uniformed services members have historically contributed to the TSP at a lower rate than FERS and CSRS participants. Approximately 40 percent of active duty uniformed service members and 16 percent of members of the reserves contributed to the TSP between January 1, 2012 and March 31, 2013 (see Exhibit I-2), while approximately 86 percent of FERS and 60 percent of CSRS participants contributed during this same period. However, as illustrated in Exhibit I-3,

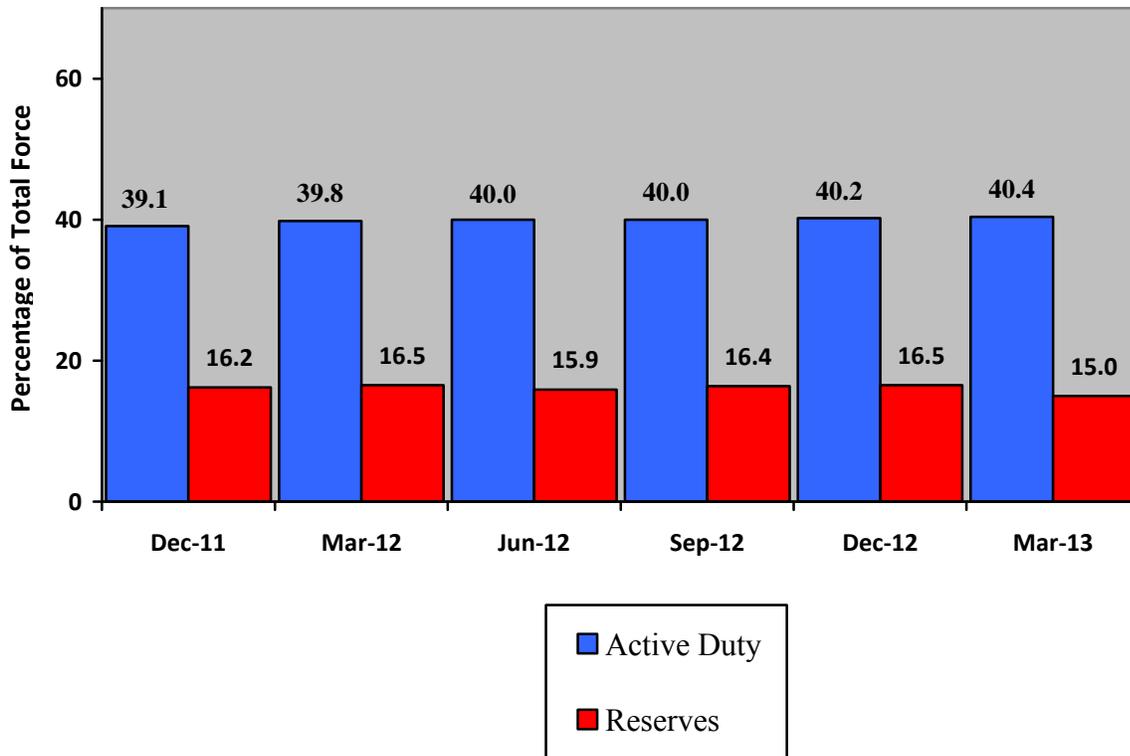
---

<sup>7</sup> Source: Minutes of the April 22, 2013, Federal Retirement Thrift Investment Board meeting, posted on [www.frtib.gov](http://www.frtib.gov).

members of the uniformed services have a higher average Roth balance as a percentage of their total TSP balance than other TSP participants.<sup>8</sup>

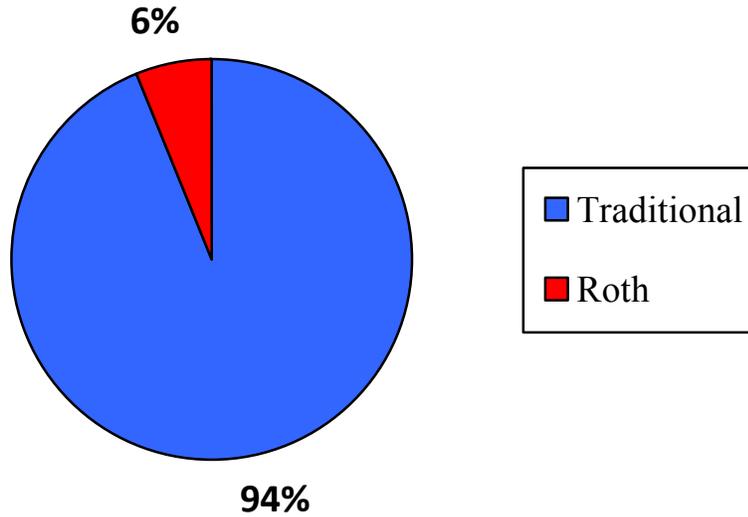
*Exhibit I-2*

### TSP Participation Rates for Uniformed Services (Unaudited)

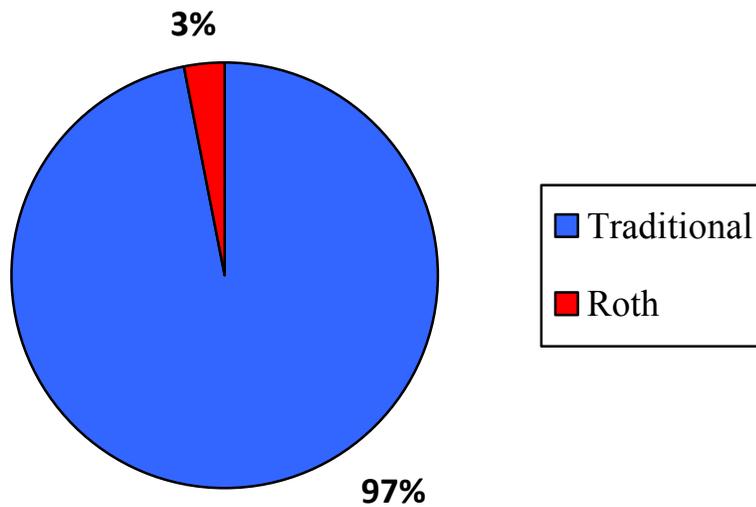


<sup>8</sup> Sources: Minutes of the Federal Retirement Thrift Investment Board meetings, January 2012 – April 2013, posted on [www.frtib.gov](http://www.frtib.gov), and Thrift Savings Plan Participation Statistics received from the Agency for the months of December 2012 and March 2013.

**Uniformed Services Participants' Contribution  
Types as a Percentage of Total Average Balance as  
of March 31, 2013 (Unaudited)**



**FERS and CSRS Participants' Contribution Types  
as a Percentage of Total Average Balance as of  
March 31, 2013 (Unaudited)**



## **II. OBJECTIVE, SCOPE AND METHODOLOGY**

### **A. Objective**

The U.S. Department of Labor (DOL) Employee Benefits Security Administration (EBSA) engaged KPMG LLP (KPMG) to conduct a performance audit of certain Thrift Savings Plan (TSP) operations at the Defense Finance and Accounting Service (DFAS). DFAS operates as both an employing federal agency and as a payroll service provider for federal agencies and uniformed services. This performance audit covered the TSP operations of DFAS related to its role as a payroll service provider for uniformed services.

The objectives of our performance audit were to:

- Determine whether DFAS implemented certain procedures to (1) calculate and process uniformed service member contributions and loan payments accurately and timely in accordance with the member's elections, (2) prevent member contributions for a period of six months after the member obtains a financial hardship in-service withdrawal, (3) properly characterize uniformed service member TSP contributions as tax-deferred, tax-exempt, or Roth, (4) process breakage and other adjustments owed by the uniformed services to the TSP, and (5) reconcile contributions reported to the TSP to U.S. Department of the Treasury (Treasury) clearing accounts.
- Test compliance of DFAS' TSP operations related to uniformed service members with United States Code Chapter 5, Sections 8432(a)(2), 8432(D)(d), and 8432(D)(f) (hereinafter referred to as FERSA); and Code of Federal Regulation (CFR) Title 5, Part 1600.12(c – e), 5 CFR 1600.19(b), 5 CFR 1600.21(b), 5 CFR 1600.22, and 5 CFR 1655.14 (hereinafter referred to as Agency Regulations).
- Determine the status of all prior EBSA TSP open recommendations related to DFAS reported in the *Employee Benefits Security Administration Review of the Thrift Savings Plan Operations Related to the United States Army dated July 21, 2006*.

### **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, 2012 through December 31, 2012. We performed the audit in four phases: (1) planning, (2) arranging for the engagement with DFAS, (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 DFAS military pay (MilPay) operations. Arranging the engagement included contacting the Federal Retirement Thrift Investment Board’s Staff (Agency), the Department of Defense Office of Inspector General, and DFAS and agreeing on the timing of detailed testing procedures.

During the testing and interviewing phase, we conducted interviews, collected and inspected auditee-provided documentation and evidence, participated in process walk-throughs, and designed and performed tests of controls and compliance. We conducted these test procedures primarily at DFAS Indianapolis, but also on-site at DFAS Cleveland and at the Agency’s headquarters in Washington, D.C. In Appendix B, we identify the key documentation provided by DFAS and Agency personnel that we reviewed during our performance audit.

Our performance audit procedures included testing statistical samples of TSP transactions, which we used to determine if DFAS processed TSP contributions, loan payments, and withdrawals in a manner that complied with FERSA and Agency regulations. The objective of this statistical testing was to estimate the error rate for the population, as applicable, based on the error rate for a selected sample of such transactions. We selected the following statistical samples:

Samples Selected from DFAS’ Records
<ul style="list-style-type: none"><li>• Active TSP service member participants during 2012</li><li>• Catch-up 50 contributions made by service members during 2012</li><li>• TSP service member participant separations during 2012</li></ul>

Samples Selected from the Agency’s Records
<ul style="list-style-type: none"><li>• Active TSP service member participants during 2012</li><li>• TSP Roth contributions made by service members during 2012</li><li>• New TSP loans processed for service members during 2012</li><li>• Active loans for service members during 2012</li><li>• Loans of service members terminated during 2012</li><li>• TSP service member participant separations during 2012</li><li>• Service members who received TSP hardship in-service withdrawals during 2012</li></ul>

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

- Monthly TSP transfer of funds vouchers and related supporting documents, to determine whether DFAS had implemented controls over the submission of TSP data;
- TSP 1701s, *Error Report*, and TSP error code listing, to determine whether DFAS responded timely and accurately to submissions rejected by the TSP system;
- Monthly reconciliations of DFAS' TSP clearing accounts to the Treasury balance for each service and each component (i.e., active duty and reserves), to determine whether DFAS reconciled its accounts to Treasury balances; and
- Defense MilPay Office system and voucher user access/roles, to determine whether DFAS properly managed system access.

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.

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

### **III. FINDINGS AND RECOMMENDATIONS**

#### **A. Introduction**

We performed procedures related to certain Thrift Savings Plan (TSP) account maintenance, loans, and withdrawal operations at the Defense Finance and Accounting Service (DFAS) while conducting a performance audit primarily at the DFAS locations in Indianapolis, IN and Cleveland, OH. DFAS operates as both an employing federal agency and as a payroll service provider for federal agencies and uniformed services. This performance audit covered the TSP operations of DFAS related to its role as a payroll service provider for uniformed services. Our scope period for testing was January 1, 2012 through December 31, 2012. 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, 2012 through December 31, 2012 DFAS implemented certain procedures to (1) calculate and process uniformed service member contributions and loan payments accurately and timely in accordance with the member's elections, (2) prevent member contributions for a period of six months after the member obtains a financial hardship in-service withdrawal, (3) properly characterize uniformed service member TSP contributions as tax-deferred, tax-exempt, or Roth, (4) process breakage and other adjustments owed by the uniformed services to the TSP, and (5) reconcile contributions reported to the TSP to U.S. Department of the Treasury (Treasury) clearing accounts. However, we noted internal control weaknesses in certain areas that could adversely affect TSP operations at DFAS as the payroll service provider for uniformed services. As a result of our compliance testing, we did not identify any instances of noncompliance with United States Code Chapter 5, Sections 8432(a)(2), 8432(D)(d), or 8432(D)(f); or Code of Federal Regulation (CFR) Title 5, Part 1600.12(c – e), 5 CFR 1600.19(b), 5 CFR 1600.21(b), 5 CFR 1600.22, or 5 CFR 1655.14 in DFAS' TSP operations related to uniformed service members.

We present four recommendations related to TSP operations at DFAS, two addressing fundamental controls and two addressing other controls. Fundamental control recommendations address significant procedures or processes that have been designed and operated to reduce the risk that material intentional or unintentional processing errors could occur without timely detection or that assets are inadequately safeguarded against loss. Other control

recommendations address procedures or processes that are less significant than fundamental controls. All recommendations are intended to strengthen TSP operations at DFAS. DFAS should review and consider these recommendations for timely implementation. DFAS' responses to these recommendations are included as an appendix within this report (Appendix A).

We also reviewed 11 prior U.S. Department of Labor Employee Benefits Security Administration (EBSA) recommendations related to TSP operations at DFAS, identified in Section III.B, below, to determine their current status. These prior year recommendations were reported in the *Review of the Thrift Savings Plan Operations Related to the United States Army, July 21, 2006*. Section III.B documents the status of these prior recommendations. In summary, ten DFAS-related recommendations have been closed and one remains open, as follows:

- Four recommendations have been implemented and closed;
- Three recommendations have been partially implemented and closed, with remaining elements incorporated into current year recommendations;
- Two recommendations have not been implemented but have been closed;
- One recommendation has not been implemented but has been closed and incorporated into a current year recommendation; and
- One recommendation has been partially implemented and remains open.

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

## **B. Findings and Recommendations from Prior Reports**

The findings and recommendations from prior reports that required follow-up are presented in this section. Certain of these findings and recommendations required action from multiple parties. The discussion below includes the current status of each recommendation as it pertains to DFAS only.

### **2006 TSP Army Recommendation No. 1**

Original Recommendation: The U.S. Army should work with DFAS to identify a division to be responsible for conducting periodic reviews of TSP operations.

Reason for As of July 21, 2006, the U.S. Army did not perform periodic internal

Recommendation: reviews of its TSP operations. Conducting periodic TSP operational reviews could reduce costs by timely identification of TSP processing errors and related inefficiencies, strengthen compliance with TSP-related laws and regulations, and provide participants with assurance that activities related to their retirement contributions are properly managed. Also, the results of these reviews could identify areas where DFAS and U.S. Army staff needed additional training.

DFAS Status: **Implemented**  
During our current year performance audit, we determined that DFAS payroll operations, including TSP operations, are subject to the annual Military Pay (MilPay) Statement on Standards for Attestation Engagements (SSAE) No. 16 examination that addresses certain TSP controls, and periodic review by the DFAS internal review and audit readiness functions and the Department of Defense Office of Inspector General.

Disposition: **Recommendation Closed**

### **2006 TSP Army Recommendation No. 2**

Original Recommendation: DFAS should develop and implement a process for reconciling contributions and loan amounts in a timely manner. All reconciling items identified should be promptly investigated and resolved, and evidence supporting the resolution of such reconciling items should be maintained.

Reasons for Recommendation: While DFAS had developed certain reconciliation procedures related to TSP contributions and loan payment amounts withheld, an adequate and timely process of reconciling U.S. Army active duty contributions and ready reserve contributions and loan payments submitted to and processed by the TSP system to the corresponding Treasury clearing accounts had not been implemented.

DFAS Status: **Implemented**  
During our current performance audit, we tested DFAS's monthly reconciliation process between the pay systems, the TSP system, and the

Treasury clearing accounts and determined that the reconciliations were consistently performed in a complete and timely manner.

Disposition: **Recommendation Closed**

**2006 TSP Army Recommendation No. 3**

Original Recommendation DFAS should develop and implement secondary review controls to ensure that information entered into DJMS is reviewed by a different DFAS specialist before it is processed.

Reason for Recommendation: DFAS-Indianapolis did not have a secondary review control in place over the direct entry of hard copy TSP election forms into the Defense Joint MilPay System – Active Component (DJMS-AC), and (2) the research and resolution of TSP rejected items per the TSP 1701 Error Reports.

DFAS Status: **Partially Implemented**  
During our current year performance audit, we noted that DFAS had implemented a review process for TSP data entered directly into DJMS-AC. A technician enters data and a supervisor or other employee, as deemed appropriate, reviews and certifies the entry prior to submission to the TSP.

However, we also noted that DFAS does not require supervisory review of the research and resolution of TSP rejects. Although we observed that MilPay technicians were given the responsibility to address rejects in a timely and appropriate manner because of the high volume of TSP transactions being processed, we identified a deficiency related to the timeliness of reject corrections.

Disposition: **Recommendation Closed.** We have incorporated the remaining elements of this recommendation into current year recommendation no. 2013-3 in Section III.C of this report.

## **2006 TSP Army Recommendation No. 4**

Original Recommendation DFAS should develop and implement system changes to DJMS-AC and DJMS-RC to allow for the interface of members' payroll data between the two components. In the interim, DFAS should establish procedures to address this issue, including the submission of a "T" code, indicating a transfer to the TSP, instead of an "S" code.

Reason for Recommendation: DJMS-AC and DJMS – Reserve Component (DJMS-RC) were not designed to interface or transfer data with each other. When a member transferred within the U.S. Army (i.e., from active duty to ready reserve or from ready reserve to active duty), no mechanism was in place for the member's personnel or payroll information to transfer between the two components.

The payroll office to which the participant was transferring re-entered the participant's information into the respective DJMS system. In order to resume contributing to the TSP, the participant re-elected contributions by completing a TSP election form (Form TSP-U-1) or processing through *myPay*. If the participant had a loan, it was the responsibility of the participant to notify DFAS for loan payments to be deducted from the participant's current pay.

DFAS Status: **Partially Implemented**  
During our current year performance audit, we noted that no interface existed between DJMS-AC and DJMS-RC that allowed or enabled the transfer of payroll data between the systems. DFAS indicated that the deployment of the Defense Integrated Military Human Resources System, currently in development, will allow for the interface of service members' active and reserve payroll data. In the interim, DFAS implemented a manual process to transfer TSP data, including elections and loan status, between a service member's active and reserve TSP accounts.

Disposition: **Recommendation Open**

## **2006 TSP Army Recommendation No. 5**

Original Recommendation            The U.S Army, in conjunction with DFAS, should develop and implement procedures to improve the timeliness of its submission of changes in employment codes and dates and should notify separated participants of unusual delays in submitting this information to the TSP system. Further, DFAS should investigate reasons for inaccurate separation dates and implement procedures to ensure that accurate separation dates are transmitted to the TSP system.

Reason for Recommendation:    For 28 of the 118 separated participants statistically selected during our 2006 withdrawals testwork (an unbiased statistical point estimate of 23.7 percent of records in error in the population), DFAS did not transmit the participants' updated employment code and date to the TSP system within 60 days of separation. The delay in the transmission may have been caused by the U.S. Army's delay in recording separations in its personnel system that interfaced with DJMS.

For 25 of the 118 separated participants, limited to ready reserve participants, selected during the withdrawals testwork, DFAS did not accurately report the ready reserve participants' official separation date to the TSP.

DFAS Status:                    **Not Implemented**  
During our current year performance audit, we noted that DFAS had not taken action to address this recommendation. In addition, during our testwork over 116 separations across all services and components, we noted that a DFAS Defense Military Pay Office (DMPO) did not record one service member separation until six months after the member's separation. Because the error occurred at a DFAS DMPO and we identified another DMPO processing error in the current year audit, we considered the deficiencies in the aggregate and issued a new recommendation specifically addressing DFAS DMPO processing procedures.

Disposition: **Recommendation Closed.** We have incorporated the deficiency into current year recommendation no. 2013-4 in Section III.C of this report.

**2006 TSP Army Recommendation No. 6**

Original Recommendation DFAS should develop and implement controls to prevent TSP participants from contributing in excess of the allowable annual limit per IRS regulations.

Reason for Recommendation: DJMS did not have system controls to limit participant tax-deferred contributions per Internal Revenue Service (IRS) regulations. When a contribution amount put a participant's account over the allowable annual limit, the TSP rejected the entire payment; however, this was a compensating, not a preventative, control external to DFAS. The rejections were researched by DFAS, and DFAS manually set an over-the-limit flag within DJMS for the participant so that no further contributions were submitted. The remaining allowable amounts to reach the maximum level were then manually calculated by DFAS, and they re-submitted the allowable amount via the Thrift Savings Plan Component application.

We also noted that at DFAS-Cleveland, the "Y" or yes flag for the over-the-limit notification had not been working in the system since July 2005, and DFAS continued to process numerous refunds to members because over the limit contributions continue to be remitted from participants' pay. DFAS-Denver was aware of the situation and had it on their schedule to be corrected.

DFAS Status: **Partially Implemented**  
During our current year performance audit, we noted that DJMS-AC, DJMS-RC, and the Marine Corps Total Force System were properly designed to preclude the continued processing of TSP contributions once the limit had been reached as identified by the TSP system, except as noted below. As a result of the 2006 recommendation, DFAS assessed the cost-benefit of configuring the pay systems to address the IRS limit

without reliance on the TSP system and determined not to re-configure the systems in this manner. However, we noted that DJMS-AC is not configured to stop Roth TSP contributions in accordance with the IRS limit.

Disposition: **Recommendation Closed.** We have incorporated the deficiency related to Roth TSP contributions into current year recommendation no. 2013-1 in Section III.C of this report.

### **2006 TSP Army Recommendation No. 7**

Original Recommendation DFAS should develop and implement controls to prevent participants from contributing during the six-month non-contribution period following disbursement of a financial hardship in-service withdrawal.

Reason for Recommendation: Because DJMS did not have related system edits, a participant could resume contributions via *myPay* during the six-month non-contribution period. The TSP system rejected these contributions on the TSP Report 1701, Error Report; however, this was a compensating, not a preventative, control external to DFAS. For 12 of the 59 participants judgmentally selected for testing who received a financial hardship in-service withdrawal, we noted that the participants resumed contributions during the six-month non-contribution period. The TSP rejected the contributions, and DFAS refunded the monies to the participant.

DFAS Status: **Implemented**  
During our review of the configuration of the DFAS pay systems, we noted that the systems have been configured to stop participant contributions upon notification from the TSP system that the participant is in a hardship status.

Disposition: **Recommendation Closed**

### **2006 TSP Army Recommendation No. 10**

Original DFAS should develop and implement system changes to DJMS-RC to

Recommendation preserve the history of U.S. Army reserve TSP transactions, or retain hard copy history records, to ensure that future participant issues or inquiries can be addressed in a timely manner.

Reason for Recommendation: DFAS-Cleveland was unable to provide us with the calendar year 2005 DJMS-RC TSP transaction histories, including monthly details for tax-deferred and tax-exempt contributions, for all 43 reserve participants in our statistical sample of 118 participants. This situation occurred because the DJMS-RC system was not designed to store such history data in a readable format.

DFAS Status: **Implemented**  
During our 2013 audit procedures, we determined that DJMS-RC contained 11 months of transactions and that data older than 11 months was archived within the system. DFAS provided transaction histories for all transactions, service members, and periods requested during our audit in a timely manner from both the active and archived sources.

Disposition: **Recommendation Closed**

### **2006 TSP Army Recommendation No. 11**

Original Recommendation DFAS should develop and implement procedures to ensure it is maintaining the current contact information for U.S. Army members.

Reason for Recommendation: DFAS was unable to provide two members' current mailing addresses or email addresses in order for us to complete audit confirmation procedures over contribution election percentages. In accordance with TSP Bulletin 01-U-5, *Processing Submissions from the Uniformed Service*, the payroll office [DFAS] must report to the TSP personal information needed to maintain TSP accounts.

DFAS Status: **Not Implemented**  
During our current year performance audit, DFAS management indicated that they use *myPay* to communicate to service members and that *myPay* displays an annual reminder to all military service members

to review and update their email addresses in *myPay*. DFAS considers this reminder to be sufficient to address the original recommendation. Audit confirmation procedures similar to those performed during our 2006 audit were not within the scope of our 2013 audit; as such, we did not identify issues similar to the issues previously noted during our 2013 audit.

Disposition:                    **Recommendation Closed**

### **2006 TSP Army Recommendation No. 12**

Original Recommendation                    DFAS should identify the cause of any loan payments that are not properly established and strengthen controls to ensure that participant loan payment deductions occur promptly upon notification of loan disbursements from the TSP system.

Reason for Recommendation:                    During our loan payment testwork over a judgmental sample of 59 loans disbursed during our scope period, we noted one exception where loan payments were not set up to begin deducting from the participant's pay. Thus, the participant made manual loan payments directly to the TSP.

DFAS Status:                    **Not Implemented**  
Although DFAS did not perform corrective actions specific to this recommendation, we noted that in 2012 the DFAS pay systems were configured to interface with the TSP system to start and stop loan payments. In addition, during our current year testwork over 58 new loans, we did not identify any loan payment initiation processing errors.

Disposition:                    **Recommendation Closed**

### **2006 TSP Army Recommendation No. 14**

Original Recommendation                    DFAS should strengthen and execute controls over catch-up 50 contributions to ensure that contributions are properly classified for submission to the TSP system.

Reason for Recommendation: During our controls testwork over two monthly catch-up 50 contribution reconciliations, we noted a total of 443 record detail transactions. For 2 of these transactions, participant's contributions should have been submitted as catch-up 50 contributions on the Payment Record 87 but were improperly submitted to the TSP system as regular contributions on the Payment Record 17. Proper coding of contributions is essential to monitor eligibility and prevent contributions in excess of amounts established by law.

DFAS Status: **Partially Implemented**  
During our current year performance audit, we noted procedures in place at DFAS to address the original recommendation. However, during our testwork over 58 service members for whom DFAS processed catch-up 50 contributions during 2012, we identified one error. Because the error occurred at a DFAS Army DMPO and we identified another DMPO processing error in the current year audit, we considered the deficiencies in the aggregate and issued a new recommendation specifically addressing DFAS DMPO processing procedures.

Disposition: **Recommendation Closed.** We have incorporated the current year error into current year recommendation no. 2013-4 in Section III.C of this report.

## **C. 2013 Findings and Recommendations**

While conducting our performance audit over DFAS TSP operations, we identified four findings and developed related recommendations. EBSA requests appropriate and timely action for each recommendation.

### **RECOMMENDATIONS TO ADDRESS FUNDAMENTAL CONTROLS**

#### **Pay System Configuration Deficiencies**

During our 2013 audit work, we identified deficiencies in controls related to TSP Roth contributions processing in the DJMS-AC and DJMS – DJMS-RC pay systems, as follows:

- DFAS did not offer the TSP Roth option to members of the Army Reserve, Navy Reserve, and Air Force Reserve (including each branch's Guard members) during calendar year 2012. The pay system used to process payroll for these reserve components, DJMS-RC, was not configured to process TSP Roth contributions as of December 31, 2012. DFAS management was aware of this condition and communicated it to us during our fieldwork.
- DJMS-AC was unable to process TSP Roth contributions as a percentage of a service member's designated pay type (i.e., basic, bonus, special, and incentive). To process TSP Roth elections in DJMS-AC, DFAS required service members to elect a dollar amount contribution rather than percentage of pay.

As a result of this deficiency, DJMS-AC did not consider the annual IRS contribution limit when applying a service member's TSP Roth election. DJMS-AC processes dollar amount payroll deductions differently than percentage of pay contributions, and the system is not configured to adjust a service member's dollar deduction as a result of the IRS limit. In a sample of 58 participants, we noted that DFAS processed one service member's contributions for calendar year 2012 in excess of the IRS annual deferral limit of \$17,000. We determined that the TSP system rejected the excess \$200 contribution; therefore, the member's TSP account was in compliance with the IRS limit. However, DFAS did not identify the excess \$200 December TSP Roth withholdings or refund the amount to the service member, resulting in an underpayment of service member's pay.

DJMS-AC and DJMS-RC were not originally designed or configured to process TSP Roth elections. The systems require significant updates and re-configuration that has taken time and resources to design and implement.

5 CFR 1600.20, Types of employee contributions, (b) *Roth Contributions*, states, “A participant may make Roth contributions in addition to or in lieu of traditional contributions.” In addition, TSP Bulletin 11-U-8, *Revision to Implementation of Thrift Savings Plan Roth Contributions Bulletin*, Section VI, Services’ Responsibilities to Implement Roth TSP Contributions, states, “Beginning in the second quarter of 2012, or as soon as possible thereafter, services should offer their uniformed services members the opportunity to make Roth contributions. Thus, services must...Modify their payroll systems to allow for traditional...and Roth...contributions...”

5 CFR 1600.22, Maximum employee contributions, states that “A participant’s employee contributions are subject to the following limitations...A participant may make traditional contributions and Roth contributions during the same year, but the combined total amount of the participant’s tax-deferred employee contributions and Roth contributions cannot exceed the applicable Internal Revenue Service elective deferral limit for the year.”

- 1. DFAS should configure DJMS-RC to accept and process TSP Roth contributions and configure DJMS-AC to properly process TSP Roth contributions within IRS limits.**

Proper configuration of DJMS-AC and DJMS-RC would allow DFAS to offer the TSP Roth option to all uniformed service members in accordance with TSP regulations, will allow Roth contributions to be processed accurately in accordance with the IRS contribution limits, and will reduce the number of TSP-related errors requiring correction.

### **Lack of Certain DMO User Access Forms**

In a sample of 25 DMO users as of December 31, 2012, DFAS did not provide DMO user access forms for four users. DFAS personnel indicated that they attempted to contact to the users but were unable to reach them. For two of the users, DFAS provided evidence that the individuals did not have accounts in DMO as of April 3, 2013 (i.e., no user profiles for those employees). For the other two users, DFAS revoked the users' DMO access in March 2013 as a result of our audit inquiry.

DFAS's periodic review of the DMO user access listing did not include review by supervisory personnel at the user-level, who may better identify users whose account should be deactivated. In addition, DFAS did not properly maintain the access forms to support the users listed on the DMO user access listing.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 3, *Recommended Security Controls for Federal Information Systems and Organizations*, states:

*AC-2: Account Management*

“The organization manages information system accounts, including:

- d. Requiring appropriate approvals for requests to establish accounts;
- e. Establishing, activating, modifying, disabling, and removing accounts;...
- i. Granting access to the system based on: (i) a valid access authorization, (ii) intended system usage; and (iii) other attributes as required by the organization or associated missions/business functions.”

*PS-6: Access Agreements*

“The organization:

- a. Ensures that individuals requiring access to organizational information and information systems sign appropriate access agreements prior to being granted access; and
- b. Reviews/updates the access agreements [*Assignment: organization-defined frequency*].”

The Government Accountability Office's (GAO) *Standards for Internal Controls in the Federal Government* (the Standards) states, “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination...All documentation and records should be properly managed and maintained.”

- 2. DFAS should reinforce and strengthen policies regarding DMO user access form maintenance and periodic review of system user access listings and resolution of inactive accounts. Strengthened policies may include requiring periodic user access listing review by supervisors at the user-level to identify inactive accounts in their offices.**

Implementation of such policies would help strengthen DMO user access controls and, as a result, better safeguard information in the system.

## **OTHER CONTROL RECOMMENDATIONS**

### **Untimely DFAS Correction of Certain TSP Rejects**

DFAS did not consistently correct errors rejected by the TSP system in a timely manner. During our control testwork over the TSP reject correction process, we identified two rejected errors, from a sample of 25, that were not corrected in a timely manner. The errors occurred during calendar year 2012; however, DFAS personnel did not make the necessary corrections to the members' payroll records until March and April 2013 as a result of our performance audit testwork. The uncorrected errors resulted in inaccurate 2012 TSP contributions and therefore breakage owed to the members.

DFAS indicated that the rejects were not corrected as a result of oversight by MilPay personnel because of the high volume of TSP data that requires attention.

TSP Bulletin 11-U-10, *Thrift Savings Plan Payroll Office Reports*, Section I.B. Error Reports, states:

- “(a) Error codes beginning with “R” (reject) identify records that were not processed. The payroll office should review and record and, as appropriate, resubmit the correct data, payments, or negative adjustments.
- (b) Error codes beginning with “P” (partial) identify current or late payment records that were partially processed. The payroll office should take the necessary actions to correct the payments that were not processed.
- (c) Error codes beginning with “W” (warning) identify records that were processed with suspect data. The payroll office should submit records with correct data if its research shows a correction is necessary.”

- 3. DFAS should strengthen and formalize its TSP reject review and correction procedures to ensure that MilPay technicians address all reject codes that require DFAS action within a defined time period after the reject occurs.**

Strengthened reject review and correction procedures would help ensure that errors are corrected timely and that TSP contributions are processed timely and accurately.

## **DFAS TSP Transaction Errors**

DFAS Army DMPOs did not consistently process TSP-related transactions accurately or timely. We identified two instances of inaccurate and untimely transaction processing at the DMPOs. Inaccurate transaction processing at the DFAS DMPOs resulted in inaccurate payroll or contribution data and inaccurate service member withholdings. In addition, resolving and correcting inaccurately processed transactions requires the inefficient use of resources at DFAS - Indianapolis.

- Instance 1 (in a sample of 58 catch-up contributions processed during 2012): A DFAS Army DMPO enrolled a service member in the catch-up contribution program even though the member did not meet the minimum age requirement. DFAS – Indianapolis identified the error during a monthly catch-up contributions review process prior to submission of catch-up contributions to the TSP. Therefore, the erroneous catch-up contribution was not submitted to the TSP. However, DFAS erroneously withheld the catch-up amount from the service member’s paycheck, and DFAS refunded the amount upon discovery of the error.
- Instance 2 (in a sample of 116 TSP separations during 2012): DFAS personnel at an Army DMPO did not enter a service member’s separation into the DMO in a timely manner. Specifically, the DMPO personnel entered the separation into DMO 6 months after the separation date. We reviewed the service member’s leave and earnings statements for 2012 and determined that the member did not receive pay nor make TSP contributions beyond his separation date.

DFAS Army DMPO policies may not sufficiently emphasize the performance of thorough self-review or supervisory review of transactions processed. In addition, DFAS DMPO employees may not be sufficiently trained in supervisory review policies.

According to 5 CFR 1600.23, Catch-up contributions, “A participant may make traditional catch-up contributions or Roth catch-up contributions from basic pay at any time during the calendar year if he or she...Is at least age 50 by the end of the calendar year;...”

The GAO Standards states, “Transactions should be promptly recorded.... In addition, control activities help to ensure that all transactions are completely and accurately recorded.”

- 4. DFAS should reinforce its review policies for TSP transactions at the DFAS Army DMPOs and determine whether sufficient training has been provided to DMPO employees on such policies.**

Implementation of such a control would help ensure that TSP contributions are processed accurately, would reduce the number of TSP rejects requiring investigation, and would allow separated participants to withdraw from their TSP accounts on a timelier basis.

## **D. Summary of Open Recommendations**

### **2006 RECOMMENDATION**

#### **RECOMMENDATION TO ADDRESS FUNDAMENTAL CONTROLS**

4. DFAS should develop and implement system changes to DJMS-AC and DJMS-RC to allow for the interface of members' payroll data between the two components. In the interim, DFAS should establish procedures to address this issue, including the submission of a "T" code, indicating a transfer to the TSP, instead of an "S" code.

### **2013 RECOMMENDATIONS**

#### **RECOMMENDATIONS TO ADDRESS FUNDAMENTAL CONTROLS**

1. DFAS should configure DJMS-RC to accept and process TSP Roth contributions and configure DJMS-AC to properly process TSP Roth contributions within IRS limits.
2. DFAS should reinforce and strengthen policies regarding DMO user access form maintenance and periodic review of system user access listings and resolution of inactive accounts. Strengthened policies may include requiring periodic user access listing review by supervisors at the user-level to identify inactive accounts in their offices.

#### **OTHER CONTROL RECOMMENDATIONS**

3. DFAS should strengthen and formalize its TSP reject review and correction procedures to ensure that MilPay technicians address all reject codes that require DFAS action within a defined time period after the reject occurs.
4. DFAS should reinforce its review policies for TSP transactions at the DFAS Army DMPOs and determine whether sufficient training has been provided to DMPO employees on such policies.

## DFAS RESPONSE TO THE DRAFT REPORT



## DEFENSE FINANCE AND ACCOUNTING SERVICE

8899 EAST 56TH STREET  
INDIANAPOLIS, INDIANA 46249

JUL 19 2013

MEMORANDUM FOR DIRECTOR, U.S. DEPARTMENT OF LABOR, EMPLOYEE  
BENEFITS SECURITY ADMINISTRATION

SUBJECT: Management Comments to KPMG LLP Performance Audit Draft Report, "Certain Thrift Saving Plan (TSP) Military Pay Operations at DFAS," Dated June 20, 2013, Project No. KPMG-TSP-172013.

Attached are Management Comments for 2013 recommendations 1, 2, 3, and 4, and 2006 recommendation 4.

Your questions may be directed to Paul Mahoney, (317) 212-3196, or emailing paul.mahoney@dfas.mil

A handwritten signature in black ink that reads "Audrey L. Eckhart".

Audrey L. Eckhart  
Director, Enterprise Solutions and StandardsAttachment:  
As stated

**DFAS RESPONSE TO THE DRAFT REPORT, CONTINUED****Management Comments to KPMG LLP Performance Audit Draft Report, "Certain Thrift Savings Plan (TSP) Military Pay Operations at DFAS", Dated June 20, 2013, Project No. KPMG-TSP-172013****2013 Recommendations:**

**Recommendation 1:** Defense Finance and Accounting Service (DFAS) should configure Defense Joint Military Pay System-Reserve Component (DJMS-RC) to accept and process Thrift Savings Plan (TSP) Roth contributions and configure Defense Joint Military Pay System-Active Component (DJMS-AC) to properly process TSP Roth contributions with Internal Revenue Service limits.

**Management Comments:** DJMS-RC will be configured to process Reserve and National Guard component service member's Roth TSP contributions in accordance with TSP law and regulations. Reserve component service members may elect to make Roth TSP contributions beginning October 1, 2013.

DJMS-AC will be configured to process active component service member's Roth TSP contributions in accordance with TSP law and regulations beginning September 1, 2014.

**Estimated Completion Date:** September 1, 2014.

**Recommendation 2:** DFAS should reinforce and strengthen policies regarding Defense Military Pay Office (DMO) user access form maintenance and periodic review of system user access listing and resolution of inactive accounts. Strengthened policies may include requiring periodic user access listing review by supervisors at the user-level to identify inactive accounts in their offices.

**Management Comments:** The Enterprise Solutions and Standards Military Pay Functional Area Special Actions Security Office will begin quarterly supervisory reviews of DMO user access fourth quarter FY 2013.

**Estimated Completion Date:** November 15, 2013.

**Recommendation 3:** DFAS should strengthen and formalize its TSP reject review and correction procedures to ensure that Military Pay technicians address all reject codes that require DFAS action within a defined time period after the reject occurs.

**Management Comments:** DFAS made changes to the TSP reject review and correction procedures process and updated SOPs to include daily monitoring of rejects to ensure rejects are being worked, requiring signature, date, and annotation of corrective action taken and final review of rejects where the lead must review and sign listing to reflect rejects have been worked. In addition, the Military Pay Operations (MPO) Air Force placed the reject process on the automated Quality Review (QR) tracker. The QR tracker is designed to monitor steps in

**DFAS RESPONSE TO THE DRAFT REPORT, CONTINUED**

identified processes to ensure accountability and provide management with increased oversight of the process.

**Completed Date:** May 30, 2013

**Recommendation 4:** DFAS should reinforce its review policies for TSP transactions at the DFAS Army Defense Military Pay Offices (DMPOs) and determine whether sufficient training has been provided to DMPO employees on such policies.

**Management Comments:** MPO reiterated the proper procedures using a MILPAY Message 13-028 dated April 12, 2013. The Policy was reiterated to the DMPO management teams during the monthly telecom with all DMPO Directors in May 2013 and was also published in the June 2013 newsletter.

**Completed Date:** June 28, 2013

**2006 Recommendation:**

**Recommendation 4:** DFAS should develop and implement system changes to DJMS-AC and DJMS –RC to allow for the interface of members' payroll data between the two components. In the interim, DFAS should establish procedures to address this issue, including the submission of a "T" code, indicating a transfer to the TSP, instead of an "S" code.

**Management Comments:** DFAS evaluated the feasibility of making system changes to DJMS-AC and DJMS-RC to allow for the interface of members' payroll data between the two components. Due to the fact DJMS is actually two separate payroll systems that address payroll processing in different ways, DFAS determined this recommendation is not feasible. DFAS ESS Military Pay Functional Area will develop a Directive and collaborate with the DFAS Cleveland and Indianapolis MPO to document procedures/SOPs for a manual workaround to address this issue.

**Estimated Completion Date:** December 31, 2013

## KEY DOCUMENTATION AND REPORTS REVIEWED

**Defense Finance and Accounting Service's (DFAS) Documents and Reports<sup>9</sup>**

- TSP-U-1: *Election Form*, various dates
- TSP-U-1-C: *Catch-Up Contribution Election Form*, various dates
- TSP-U-2: *Certification of Transfer of Funds Journal Vouchers*, various 2012 dates
- TSP-U-2-R: *Certification of Re-characterization of Records and Journal Voucher*, various 2012 dates
- TSP-U-2-L: *Certification of Transfer of Funds and Journal Voucher for Loan Payments*, various 2012 dates
- TSP 1701, *Error Reports*, various 2012 dates
- TSP 1701 Reject (Error) Codes Listing
- TSP 1702, *Payroll Office Recap of Journal Voucher Processing*, Reports for Air Force, Army, Navy and Marine Corps (Active and Reserve Components) for the months of March and December 2012
- TSP 5014, *Breakage by Agency*, for Air Force, Army, Navy, and Marine Corps (Active and Reserve Components) for the months of March and December 2012
- TSP 5501, *Participants for Whom Hardship Withdrawals Were Disbursed*, Reports for various 2012 dates
- TSP 30514, *Summary Report of Negative Adjustments Processed*, for Air Force, Army, Navy and Marine Corps (Active and Reserve Components) for the months of March and December 2012
- GWA Account Statements for the period January 1, 2012 – December 31, 2012
- Reconciliation of DFAS Clearing Accounts to Treasury for Air Force, Army, Navy, and Marine Corps (Active and Reserve Components) for the months of March and December 2012

---

<sup>9</sup> Note: The TSP-U forms are Agency documents; however, we considered them DFAS documents in this Appendix because we received completed TSP-U forms from DFAS personnel. Similarly, the data on the TSP reports is generated from the TSP system; however, the reports were run from DFAS' pay systems.

**KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED**

- SF-224s, *Statement of Transactions*, for Air Force, Army, Navy, and Marine Corps (Active and Reserve Components) for the months of March and December 2012
- DJMS-AC, DJMS-RC, and MCTFS Transaction Histories for 2012
- Leave and Earnings Statements and Marine Corps equivalent, various 2012 dates
- Master Military Pay Account screenprints and Marine Corps equivalent, various 2012 dates
- Official Personnel Files (OPFs) and equivalents
- DD Form 2875 User Access Forms for DMO, various dates
- *System Authorization Access Request* User Access Forms for DJMS-AC, DJMS-RC, and MCTFS, various dates
- DFAS Internal Review (IR) *Audit of Internal Controls over the Thrift Savings Plan Voucher Process* (CL10PRP006CL), dated February 10, 2011

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

**Documents and Reports**

- TSP Bulletins (various)
- *TSP Summary Brochure*, May 2012
- TSP Status Code Listing
- Loan Status Reports, various 2012 dates
- Taxable Distribution Dates and Loan Stop Dates from TSP System for various 2012 dates
- Monthly Board Meeting Minutes for the December 2011 through March 2013 meetings
- Employee Data Records from the TSP System, various dates

**Department of Labor Employee Benefits Security Administration Report**

- *Review of the Thrift Savings Plan Operations Related to the United States Army* dated July 21, 2006