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United States General Accounting Office
Washington, DC 20548

April 15, 2004

Mr. Cyrus G. Lohfink
Director, National Finance Center
Office of Chief Financial Officer
Department of Agriculture
P.O. Box 60000
New Orleans, LA 70160-0001

Subject: *Excess Agency Contributions to the Thrift Savings Plan*

Dear Mr. Lohfink:

This letter summarizes the issue of overpayments to the Thrift Savings Plan (TSP) by the Internal Revenue Service (IRS) and several other federal agencies that resulted from payroll processing errors at the National Finance Center (NFC), and the resulting actions NFC took to address the issue. As you recall, in the course of testing payroll transactions as part of our audit of IRS's fiscal years 2003 and 2002 financial statements¹ we found that for some employees of IRS, NFC incorrectly computed agency mandatory contributions to the TSP of 2 percent of the employees' base pay instead of the statutorily required 1 percent.² In discussing this matter with you and your staff, we found that certain employees of other agencies had also been affected, and that these excess contributions had occurred from September 1999 through September 2003. As a result, IRS and these other agencies made contributions to TSP that exceeded statutory requirements for those employees during this period.

In further discussions of these matters with you and your staff, as well as representatives of IRS, we recommended that NFC take actions to (1) determine the magnitude of the overpayments, (2) correct the affected TSP accounts, and (3) implement procedures to prevent or detect such errors in the future. We are pleased that NFC immediately took effective action to resolve this problem and prevent a recurrence, in line with our recommendations.

¹See U.S. General Accounting Office, *Financial Audit: IRS's Fiscal Years 2003 and 2002 Financial Statements*, GAO-04-126 (Washington, D.C.: Nov. 13, 2003).

²This requirement can be found in P. L. No. 99-335, 100 Stat. 514 (1986) (codified as amended largely at 5 U.S.C. § 8351 and §§ 8401-8479).

When we initially inquired of NFC about errors it made in computing the agency mandatory TSP contributions, we found that NFC had taken action in September 2002 to prevent new overpayments from occurring but was unaware of the magnitude of existing TSP overpayments for affected employees at IRS and other agencies. Following our inquiry, NFC immediately initiated actions in line with our recommendations to identify the full magnitude of overpayments for the payrolls it had processed prior to this time. Specifically, NFC conducted a combination of analytical tests and statistical sampling of TSP records dating back to the inception of TSP, in 1987, in an effort to identify the universe of erroneous employee TSP records for the payrolls it processed.

From this work, NFC identified 203 employees from IRS and other agencies with erroneous amounts in their TSP accounts totaling \$126,136. NFC determined that \$119,547 of this amount could be recovered for the federal government. In accordance with legal requirements,³ NFC returned \$20,873 of this money (which is the amount of excess payments made within the past 26 pay periods, or year) to applicable agencies and made the remaining \$98,674 available to the Federal Retirement Thrift Investment Board to help pay for its operations. The remaining \$6,589 of overpayments NFC identified in employees' TSP accounts was not recovered because either statutory limitations prevented their recovery or the employees whose accounts were affected had separated from government service and taken their TSP funds with them.

To help ensure that future errors in TSP computations, if they occur, do not go undetected, NFC designed and implemented procedures to detect duplicate TSP records that occur during its payroll processing. These detection controls, which are consistent with the recommendations we made in our discussions with you and your staff, are designed to enable NFC to timely identify potential overpayments and make corrections before they occur.

We commend NFC for immediately initiating actions to determine the full magnitude of TSP overpayments at IRS and other agencies and make corrections, as needed, to employees' TSP accounts and payroll records. As a result of the actions NFC has taken, funds previously expended by IRS and the other affected agencies on erroneous TSP contributions that could be recovered in accordance with legal requirements were, in fact, recovered and made available to help pay for government operations. We also believe the action that NFC has taken to timely detect duplicate TSP records if they occur in the future has improved NFC's internal controls over its payroll operations and should help prevent a recurrence of the problem we found. Thus, NFC can better avoid future overpayments to employees' TSP accounts and, thus, make the funds saved available to IRS and other agencies to help pay for their operations. While NFC was unable to determine the cause of the duplicate TSP records, we concur with NFC's assessment that any resulting error would be

³Under the Federal Retirement Thrift Investment Board (FRTIB) regulations (5 C.F.R. § 1605.12), if 1 year or more passes after an overpayment occurs and before the affected agency takes action, the agency is not allowed to recover the amounts overpaid. Rather, such overpayments remain with FRTIB to help pay for FRTIB operating costs, provided the overpayments were made on or after January 1, 2000. Overpayments made prior to January 1, 2000, are required to be forfeited to the employee's account.

immaterial and, therefore, it would not be cost-beneficial to expend additional resources to try to determine the cause.

If you have any questions regarding this letter, please call me at (202) 512-3406.

Sincerely yours,

A handwritten signature in black ink that reads "Steven J. Sebastian". The signature is written in a cursive style with a large, prominent initial "S".

Steven J. Sebastian
Director
Financial Management and Assurance

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