DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date JUN 7 1994

From June Gibbs Brown
Inspector General

Subject Audit of the Personnel and Payroll Functions of the Thrift Savings Plan in the Office of the Assistant Secretary for Personnel Administration (A-17-92-00014)

To Thomas S. McFee
Assistant Secretary for Personnel Administration

Attached is our report of the audit of the personnel and payroll functions of the Thrift Savings Plan (TSP) in the Department of Health and Human Services' Office of the Assistant Secretary for Personnel Administration (ASPER). The objectives of our audit were to determine whether the TSP program (1) complied with the requirements of the Federal Employees' Retirement System Act of 1986 (FERSA) and (2) was managed in an efficient and effective manner. Nothing came to our attention in the course of our audit to indicate that ASPER was not in compliance with the requirements of FERSA. However, we identified several areas where management of the TSP program could be improved.

We found that:

- Accounting data containing the recorded amounts of TSP contributions are not periodically reconciled with the underlying source data. As a result, employee TSP contributions may go unrecorded in participants' official TSP records or may be recorded in incorrect amounts. *We recommend that ASPER periodically reconcile the accounting reports, which show the amount of TSP contributions recorded in the participants' accounts, with the initiating source documents.*

- Reconciliations of TSP cash account balances with the Department of the Treasury (Treasury) cash reports are not being performed each month. As a result, an important control to ensure accurate TSP reporting and to detect fraud, waste, and abuse is lost. *We recommend that ASPER investigate and resolve the individual cash differences between the Department and Treasury each month.*

- The policy for resolving lost TSP earnings is costly and inefficient. As a result, delaying the prompt resolution of thousands of lost earnings cases increased the cost to the Department to restore foregone investment income. *We recommend that ASPER modify the current lost earnings policies and procedures to allow for immediate resolution of lost earnings once they are identified.*

- Eligible employees are not personally notified when they may begin to participate in TSP. As a result, employees who may wish to begin to participate in TSP at the earliest possible date may be unaware of their eligibility. *We recommend that ASPER provide personal notification to all newly eligible employees when they may begin to participate in TSP.*

- Educational programs to explain TSP are not routinely conducted. As a result, employees may lack information critical to the many decisions they must make as TSP participants. *We recommend that ASPER conduct regularly scheduled TSP educational programs.*

These findings and recommendations are discussed in greater detail in the attached report. The ASPER generally agreed with our recommendations for improvement.

Please advise us within 60 days, on actions taken or planned on our recommendations. If you have any questions, you may call me directly or have your staff contact Dennis J. Duquette, Assistant Inspector General for Accounting and Financial Management Audits, at (202) 619-1122.

To facilitate identification, please refer to common identification number A-17-92-00014 in all correspondence relating to this report.

Attachments

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE PERSONNEL AND PAYROLL FUNCTIONS OF THE THRIFT SAVINGS PLAN IN THE OFFICE OF THE ASSISTANT SECRETARY FOR PERSONNEL ADMINISTRATION

DEPARTMENT OF HEALTH & HUMAN SERVICES · USA

JUNE GIBBS BROWN
Inspector General

JUNE 1994
A-17-92-00014

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

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June Gibbs Brown June G Brown
Inspector General

Audit of the Personnel and Payroll Functions of the Thrift Savings Plan in the Office of the Assistant Secretary for Personnel Administration (A-17-92-00014)

Thomas S. McFee
Assistant Secretary for Personnel Administration

We audited the personnel and payroll functions of the Thrift Savings Plan (TSP) in the Department of Health and Human Services' (HHS) Office of the Assistant Secretary for Personnel Administration (ASPER). The objectives of our audit were to determine whether the TSP program (1) complied with the requirements of the Federal Employees' Retirement System Act of 1986 (FERSA) and (2) was managed in an efficient and effective manner. Nothing came to our attention in the course of our audit to indicate that ASPER was not in compliance with the requirements of FERSA. However, we identified several areas where management of the TSP program could be improved.

We found that:

- Accounting data containing the recorded amounts of TSP contributions is not periodically reconciled with the underlying source data. As a result, employee TSP contributions may go unrecorded in participants' official TSP records or may be recorded in incorrect amounts. *We recommend that ASPER periodically reconcile the accounting reports, which show the amount of TSP contributions recorded in the participants' accounts, with the initiating source documents.*

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- Eligible employees are not personally notified when they may begin to participate in TSP. As a result, employees who may wish to begin to participate in TSP at the earliest possible date may be unaware of their eligibility. *We recommend that ASPER provide personal notification to all newly eligible employees when they may begin to participate in TSP.*

- Educational programs to explain TSP are not routinely conducted. As a result, employees may lack information critical to the many decisions they must make as TSP participants. *We recommend that ASPER conduct regularly scheduled TSP educational programs.*

These findings and recommendations, along with ASPER's responses, are discussed in greater detail in the Results of Review section which follows.

BACKGROUND

The TSP is a retirement savings and investment plan for Federal employees. Congress established the TSP as part of the FERSA of 1986. The Federal Retirement Thrift Investment Board (Board), an independent Government agency, administers the TSP. Under an agreement with the Board, the U.S. Department of Agriculture's National Finance Center (NFC) provides recordkeeping services for TSP. As the official TSP recordkeeper, NFC maintains the records of each participant's TSP contributions and investment earnings.

Responsibility for administering TSP also extends to Federal agencies. Each agency provides personnel and payroll services to TSP. At HHS, the TSP personnel functions are conducted at individual Servicing Personnel Offices (SPO) located throughout the Department. However, the TSP payroll functions are managed centrally in the Office of Human Resource Information Management (OHRIM). Both the Washington, D.C. SPO and OHRIM are located organizationally under ASPER.

The Secretary of Labor has been charged under Section 8477 of FERSA, "Fiduciary Responsibilities, Liabilities and Penalties," with the responsibility for establishing a program to conduct audits to determine the level of fiduciary compliance with FERSA. The Secretary of Labor delegated this oversight responsibility to the Department of Labor's Pension Welfare Benefits Administration (PWBA). In carrying out its oversight responsibilities, PWBA relies upon Inspectors General to perform audits of the TSP program activities within each Federal agency. At the request of PWBA, we agreed to perform the TSP audit.

SCOPE OF REVIEW

The objectives of our audit, as specified by the audit program provided by PWBA, were to determine whether the TSP personnel and payroll functions of the Washington, D.C. SPO and OHRIM (1) complied with the requirements of FERSA and (2) were managed in an efficient and effective manner. In addressing these objectives, we:

- Interviewed key payroll and personnel officials.
- Observed the processing of selected TSP transactions.
- Tested critical accounting and internal control procedures.
- Analyzed a random sample of 125 of a universe of several thousand transactions for accuracy of processing.

The audit period covered the 12 months from July 1, 1991 to June 30, 1992. Fieldwork was performed from June 1992 to November 1993 in Washington, D.C. Our audit was performed in accordance with Government Auditing Standards.

RESULTS OF REVIEW

As a result of our audit, we found nothing to indicate that the TSP program in the Washington, D.C. SPO and OHRIM was not in compliance with FERSA. We did, however, identify several areas in which TSP management could be improved. We found that:

1. The TSP contribution vouchers submitted for processing are not reconciled with the biweekly acknowledgement letters received from the TSP recordkeeper.

2. The TSP cash accounting records are not reconciled with Treasury cash reports.

3. The TSP lost earnings policy causes unnecessary delays in resolving many lost earnings cases and, consequently, increases the Department's administrative costs.

4. The TSP notification system does not ensure that newly-eligible employees will be adequately informed when they may begin TSP participation.

5. The TSP educational programs are too infrequent to adequately inform employees about TSP and how to make the most informed decisions regarding their retirement plans.

Journal Vouchers Not Reconciled With Source Data

Differences between the TSP contributions submitted for recording in participants' accounts by the TSP recordkeeper and the actual amounts recorded are not promptly investigated and resolved by OHRIM. By not investigating the differences, participant accounts may not accurately reflect their true contributions, a condition that could adversely affect participants' retirement income. Management control standards, and the Department's accounting policies, require regular reconciliations between accounting information and external reports. The OHRIM officials reported that, while reconciliation of reporting discrepancies were routinely completed in the past, they are no longer able to continue the practice due to staff cutbacks.

Each pay period, the OHRIM withholds employee TSP contributions and sends an automated record of the contributions withheld to the recordkeeper for updating individual participants' accounts. Accompanying the automated record is a journal voucher (TSP-2) summarizing the information contained in it. After processing the information, the recordkeeper returns an Acknowledgement of Processing (AP) letter informing OHRIM of the date and dollar amount processed. Often the amounts processed by the recordkeeper disagree with the amounts submitted for processing. Disagreements may result from timing differences or from processing errors made by the TSP recordkeeper.

For the time period under audit, we compared the amounts submitted for processing on 30 TSP-2 forms with the corresponding AP letters. In 29 of the 30 cases, the amount of contributions recorded by the recordkeeper disagreed with the initial amounts submitted for processing. The net difference between the two amounts was approximately $64,000. The OHRIM did not research the cause of the individual reporting discrepancies or initiate corrections.

The Comptroller General's Principles and Standards of Accounting for Federal Agencies (Title 2) and the Department's accounting policies require that management regularly perform reconciliations between summary and detailed records and independent external reports, and promptly record adjustments needed to correct errors found. The failure to perform these reconciliations increases the likelihood that participants' contributions may not be recorded accurately thereby resulting in diminished retirement income. It also may cause unnecessary cost and administrative burden to correct the discrepancies and restore any investment earnings lost by the participants due to departmental errors.

The OHRIM officials indicated that a new automated general ledger accounting system is currently being implemented and, once completed, will facilitate the reconciliation of the AP letters to the TSP-2 forms.

Recommendation: *To ensure accurate processing of TSP contributions in participants' accounts, OHRIM should return to the practice of reconciling the AP letters with the TSP-2 forms, and the prompt resolution of differences. Despite reductions in staff, we believe the performance of routine reconciliations is, overall, cost beneficial and should be reestablished.*

ASPER Response: The ASPER agreed with our recommendation and is currently directing its efforts to include a review of its present records, source data, and fiscal procedures to assess and implement a plan for improving the accuracy and timely completion of the TSP reconciliation process.

Cash Records Not Reconciled With Treasury

The OHRIM does not routinely analyze the differences between the monthly TSP cash transactions reported to Treasury and Treasury's record of TSP cash activity. Without the benefit of regular cash reconciliations, the Department cannot be assured that its accounting records and related reports accurately reflect the financial activity of the TSP program. Regular cash reconciliations are required by the Comptroller General's Title 2 and the Department's accounting manual. The OHRIM officials indicated that they are unable to complete the cash reconciliations because of the limited number of staff available.

Similar to a commercial bank, Treasury collects and disburses funds on behalf of all Federal agencies. Each month, agencies provide an accounting of their cash activity to Treasury on a Statement of Transactions Report (TFS 224). In turn, the Treasury prepares a monthly report to each agency, Undisbursed Appropriation Account (TFS 6653), based upon its cash activity records. The TSP cash activity presented in the

TFS 6653 report is based, in part, on the information processed by the TSP recordkeeper. Each month agencies are expected to reconcile the TFS 224 with the TFS 6653 and resolve any differences between them.

We examined the TFS 224 reports and TFS 6653 reports for the 12-month period ending June 30, 1992 and found a $10,390 net unresolved difference. We were unable to reconcile the unresolved difference. The OHRIM representatives indicated that they were unable to complete the reconciliations because they did not have staff available.

Routine reconciliations provide an important means of identifying missing and inaccurate cash transactions, ensuring the accurate reporting of cash balances, and detecting the misappropriation of funds. Proper reconciliation procedures require identifying, investigating, and resolving all discrepancies between general ledger control accounts, subsidiary records, and external corroborative sources, and promptly initiating adjusting entries to correct accounting records for errors.

Recommendation: Despite limited staff resources, the regular performance of cash reconciliations is fundamental to sound financial management. We recommend that OHRIM begin routine reconciliations of the TFS 224 reports with the TFS 6653 reports, and the prompt resolution of differences.

ASPER Response: The ASPER agreed with the recommendation and expressed its hope that the Treasury's establishment of a separate account for TSP transactions will enhance the reconciliation process. The implementation of a new automated general ledger accounting system, in its view, should also facilitate the reconciliation process.

Lost Earnings Policy Not Effective

The Department's policy of issuing formal notifications offering employees options to make up lost TSP contributions delayed restoration of TSP contributions and caused the Department unnecessary interest and administrative costs. The Department's policy to delay restoration of lost earnings was based upon an incorrect interpretation that Federal TSP regulations prohibit agencies from acting unilaterally to restore lost TSP earnings. The Department is considering modifying its lost earnings policy to permit the immediate and unilateral restoration of lost earnings due to errors and payroll changes.

Lost earnings represent TSP contributions and related investment income not realized due to agency error. Lost earnings may represent participant's contributions, employer contributions, or both. Generally, they are the result of delays in processing both TSP deductions and changes in payroll status. Federal agencies must bear the cost to restore their share of the initial TSP contribution and the cost to ensure the full value of any lost investment income resulting from the error. Typically, several lost earnings situations occur each pay period and are for relatively small amounts of money.

Under FERSA guidelines, management may resolve small dollar cases by adjusting employee pay and contributions in the pay period immediately following the one in which the lost earnings occurred. The Department interpreted the TSP regulations to require that it formally notify all employees of lost earnings and allow them to select how they preferred to resolve the problem. Since the inception of the TSP program in April 1987, the Department has sent out more than 20,000 formal notices informing participants of their lost earnings and offering each a number of options to restore them. The options consist primarily of various repayment schedules. In that time, the Department resolved about 15,000 lost earnings occurrences. Of the remaining 5,000 unresolved cases, the mandatory time period available to employees to request restoration of lost earnings has expired. By extending the time period in which the Department permitted employees to request resolution, the value of the lost investment earnings, which the Department was obligated to honor, grew substantially.

We attempted to assess the cost to the Department from delaying resolution of lost earnings in this manner, but found that the accounting system used by OHRIM does not separately identify such costs, nor does it separately account for the administrative cost to research each lost earnings case. Consequently, we were unable to ascertain the total cost to the Department from following this policy.

We were informed by payroll officials that the Department has reviewed the relevant regulations and is considering modifying its lost earnings policy to permit immediate resolution without issuing formal employee notification letters. We believe this policy change is a more cost-effective means to resolving lost earnings.

Recommendation: *We recommend that management modify its policy on lost earnings to permit immediate restoration of lost earnings as soon as they are identified.*

ASPER Response: The ASPER agreed with Office of Inspector General and indicated that it is currently exploring a new approach to strengthen and increase the effectiveness of its performance in this area.

Employees Not Adequately Notified of TSP Eligibility

Newly hired employees are not personally notified when they may begin to participate in TSP. By not directly informing them of their eligibility date, many employees were unaware that they could initiate savings contributions. When Congress established TSP under FERSA, one of its goals was to encourage Federal employees to share directly in their retirement planning through greater personal savings. The Department's policy of notifying newly hired employees of their TSP eligibility only when they are hired is apparently an ineffective means of fully informing employees.

In enacting FERSA, Congress sought greater employee involvement in decisions affecting their ultimate retirement benefits by providing a degree of flexibility with respect to the amount of disposable income an employee can set aside for retirement. It also believed that employees should share directly in their retirement planning by encouraging greater personal savings. To achieve these objectives, Federal agencies must facilitate the opportunity for all eligible employees to fully participate at the earliest allowable date. The Department can contribute to active and timely participation by informing employees of their opportunity to participate in TSP just prior to their eligibility.

The SPO currently instructs newly hired employees, as part of their formal orientation to the Department, that they will become eligible to participate in TSP in the first full pay period of the second open election period. Open election periods generally occur twice each year. For some employees, the first opportunity to participate in TSP is more than 1 full year after they start their job. In the weeks immediately preceding an open election period, the SPO circulates general memorandums throughout the Department announcing its arrival.

In our discussion with SPO officials, we learned that employees often report that they missed the opportunity to initiate TSP contributions because they were not aware of the specific date they became eligible. We believe that the expiration of time between the employee's orientation session and their initial TSP eligibility date increases the likelihood that employees will overlook their eligibility date. It was not practical for us to quantify the extent to which the notification procedure resulted in unintended delays in TSP participation. Delays in initiating TSP contributions, particularly for employees in the early years of their Federal careers, leads to reduced retirement benefits. It would be unfortunate if the Department were responsible for such delays due to the inadequate notification of newly eligible employees.

Recommendation: To ensure that all employees are aware of their TSP eligibility date and to encourage higher employee savings, the personnel office should consider providing a personal notification to each employee at the point in time when they become eligible to contribute to TSP.

ASPER Response: The ASPER agreed with the recommendation and will take appropriate action.

TSP Education Programs Too Infrequent

The SPO does not regularly conduct TSP educational programs. Federal agencies are responsible for informing employees of TSP programs and activities and responding to their inquires. The current practice of conducting educational programs only when requested is not a sufficient means to fully inform employees about TSP. By not conducting regular TSP educational programs, many employees were found to be unaware of the significance that TSP could make to their savings and retirement plans. The Congress recognized that employee financial needs vary during their work career and retirement when it established TSP under FERSA. To address this concern, it established TSP around the concept of employee choice. In order for Federal employees to make informed choices about their retirement plans, however, the personnel offices must provide them with complete and timely TSP information. One means by which management can contribute to prudent decision making is through routine TSP educational programs for the benefit of the employees. Some of the information that employees benefit from in making TSP decisions include the following:

- How to incorporate TSP into retirement plans.
- Benefits and risks of various investment options.
- The tax consequences of TSP participation.
- Details of TSP loan program.
- Interpretation of semiannual TSP statements.

The SPO currently conducts few TSP educational programs and only when requested to do so. During the audit period, the SPO conducted only one educational program. The SPO officials reported that they were unable to provide more educational opportunities in this area due to the limited number of staff available for such services.

In assessing the effect of the limited educational outreach by the SPO, we learned that many employees underestimated the importance of TSP to their overall retirement planning. The SPO officials we contacted expressed concern that many employees were not contributing enough to TSP to adequately support themselves in retirement. They believed that these employees do not fully appreciate the need for TSP savings. We were also informed that other Federal agencies that implemented aggressive TSP educational programs experienced noticeable increases in their overall TSP participation rates.

Recommendation: *To ensure that employees are fully informed about the TSP program, and to encourage greater TSP participation, we recommend that the SPO increase the number and frequency of TSP educational programs.*

ASPER Response: The ASPER agreed with the recommendation and will take appropriate action.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

APR 6 1994

MEMORANDUM

To: June Gibbs Brown
Inspector General

From: Assistant Secretary for Personnel Administration

Subject: Audit of the Personnel and Payroll Functions of the Thrift Savings Plan in the Office of the Assistant Secretary for Personnel Administration (A-17-92-00014)

Thank you for the opportunity to review and provide the following comments on the implementation status of recommendations identified in your report dated December 1993. I have also included some up-to-date information on the progress that we have made toward satisfying some of the suggestions that you referenced in your report.

Recommendation No. 1

Accounting data containing the recorded amounts of TSP contributions is not periodically reconciled with the underlying source data. As a result, employee TSP contributions may go unrecorded in participants' official TSP records or may be recorded in incorrect amounts. We recommend that ASPER periodically reconcile the accounting reports, which show the amount of TSP contributions recorded in the participants' accounts, with the initiating source documents.

RESPONSE

We agree with your recommendation and are currently directing our efforts to include a review of our present accounting records, source data, and fiscal procedures to assess and implement a plan for improving the accuracy and timely completion of the TSP reconciliation process.

Recommendation No. 2

Reconciliations of TSP cash account balances with the Department of Treasury (Treasury) cash reports are not being performed each month. As a result, an important control to ensure accurate TSP reporting and to detect fraud, waste, and abuse is lost. We recommend that ASPER investigate and resolve the individual cash differences between the Department and Treasury each month.

RESPONSE

We concur with your recommendation. I am pleased to let you know that the Department of Treasury has approved a separate account for our Thrift transactions. Beginning in January 1994, thrift deductions are being posted and disbursed from a separate account (75F3885). Hopefully, this will enhance our reconciliation process. Once implementation of the new automated general ledger accounting system is completed, we are optimistic that this will also facilitate the reconciliation process.

Recommendation No. 3

The policy for resolving lost TSP earnings is costly and inefficient. As a result, delaying the prompt resolution of thousands of lost earnings cases increased the cost to the Department to restore foregone investment income. We recommend that ASPER modify the current lost earnings policies and procedures to allow for immediate resolution of lost earnings once they are identified.

RESPONSE

We agree that the method that was being used to handle lost TSP earnings was costly and ineffective. There have been considerable improvements in this process, and we are carefully exploring a new approach to strengthen and increase performance effectiveness.

Recommendation No. 4

Eligible employees are not personally notified when they may begin to participate in TSP. As a result, employees who may wish to begin to participate in TSP at the earliest possible date may be unaware of their eligibility. We recommend that ASPER provide personal notification to all newly eligible employees when they may begin to participate in TSP.

RESPONSE

We concur with your recommendation and will take appropriate action.

Recommendation No. 5

Educational programs to explain TSP are not routinely conducted. As a result, employees may lack information critical to the many decisions they must make as TSP participants. We recommend that ASPER conduct regularly scheduled TSP educational programs.

RESPONSE

We concur with your recommendation and will take appropriate action.

Thomas S. McFee