

# FRTIB Internal Control Plan under OMB Circular A-123

STATUS REPORT  
NOVEMBER 2007

# Legal and Policy Framework

- The Federal Managers Financial Integrity Act of 1982 (FMFIA) requires each executive agency to establish administrative and financial controls to ensure:
  - Obligations & costs comply with applicable laws & regulations
  - Assets are safeguarded against waste, fraud, and abuse
  - Revenues and expenditures are properly accounted for
- OMB issued Circular A-123 to implement Section 2 of FMFIA
- Under A-123, all Executive Branch agencies must develop and execute an internal control plan to achieve the following:
  - Reliable financial reporting
  - Efficient and effective operations
  - Compliance with applicable laws & regulations



# Legal and Policy Framework

- Appendix A of OMB A-123 imposes more stringent requirements on the 24 largest agencies for documentation, monitoring, and reporting of financial controls.
- Appendix A is not applicable to the FRTIB; however the Board decided in June 2006 to institute a program of internal controls.

# Current Control Environment

- Program and system requirements include controls (e.g., system edits, security access, desk procedures, performance standards)
- External audits by Deloitte, Department of Labor, and the Government Accountability Office
- Quarterly financial assessments of major contractors
- COTR on-going review of contractor performance including site visits
- Budget
- Accounting reconciliations
- Service Providers' SAS-70's



# What Value Does A-123 Add?

- A-123 draws documentation (system and operational) into one framework that is available to all.
- A-123 provides for a process for testing and updating critical control processes.
- Documentation of controls can be easily maintained and updated.

# Decision for Development of Internal Control Plan

- The TSP, at \$230 Billion as of September 2007, is larger than many global corporations and government agencies
- TSP financial auditors have endorsed it
- Provides additional assurance to participants
- Relatively small Agency staff
- Increased reliance on private contractors
- Contractor locations are geographically dispersed



# Status of FRTIB Internal Control Plan

## Highlights:

- Step 1: Establish a Senior Assessment Team (SAT)
- Step 2: Train Managers
- Step 3: Establish high-level control framework for the Agency
- Step 4: Identify and document critical processes and subprocesses
- Step 5: Complete a risk assessment for each critical subprocess
- Step 6: Identify existing internal controls for each critical subprocess
- Step 7: Document existing internal controls for each critical subprocess
- Step 8: Test and Update Internal Controls

# Step 1 – Establish Senior Assessment Team (SAT)

Status: Completed

- The SAT consists of the following senior staff members with key responsibilities for financial reporting, systems, operations, and legal compliance:
  - The Director of Finance
  - The Director of Automated Systems
  - The Director of Participant Services
  - The Associate General Counsel
- The SAT meets once a month



# Step 2 – Train Managers

Status: Completed

- Members of the SAT and senior and operational managers have received training in internal controls by Deloitte and training in the tracking software (Paisley)
- Training will be extended to contractor personnel who have been identified as providing key controls

# Step 3: Establish High-Level Control Framework

Status: Completed

- We developed a “top-down” high level control framework designed to focus on the most relevant Agency control objectives.
- Each office identified the relevant critical processes.



# Step 4: Develop & Document Initial Control Processes and Subprocesses

Status: Completed

- The SAT established 16 key processes and 61 related sub-processes.

**Offices: Automated Systems**

Process: Security

Process: System Delivery & Support

**Offices: Finance**

Process: Financial Management

**Offices: General Counsel**

Process: Ethics

**Offices: Investments**

Process: Investment Manager Services

**Offices: Participant Services**

Process: Account Maintenance

Process: Adjustments Processing

Process: Call Center Operations

Process: Contributions

Process: IRS Tax Reporting

Process: Legal Processing

Process: Loans

Process: Participant Communications

Process: Withdrawals

**Offices: Product Development**

Process: Product Development



**Office: Finance (06)****Process: Financial Management****Sub Process****Process Description**

06.1.01 Process Administrative Expenses	Recordation of expenses incurred and paid out for administration of the TSP.
06.1.02 Monthly SF224 Process	Monthly balance and reporting to Treasury (SF224) for receipts and disbursement activity between the TSP and Treasury.
06.1.03 Track & Maintain Physical TSP Assets - Non IT	Management of space, utilities, equipment, furniture, and other Agency and TSP assets.
06.1.04 Human Resource Management	All personnel functions including employment, retention, retirement, and benefits in compliance with OPM guidelines. Includes working with payroll and accounts payable service provider, Department of Interior (DOI) on a routine basis to administer personnel functions.
06.1.05 Investment - TSP Funds - Calculate Daily Share Prices	Compute daily share prices based on investment returns and administrative expenses.
06.1.06 Daily F, C, S, and I Fund Investment - Asset Manager	Daily investment with the Asset Manager of F, C, S, and I fund balances.
06.1.07 Investment - TSP Funds - Daily - Treasury G Fund	Daily investment with the Treasury G fund balance.
06.1.08 Disposition of Agency Records	Maintain archives of historic Agency records as directed under federal legislative requirements.
06.1.09 Maintain General Ledger	Maintain general ledger by timely recordation of daily transactions as they occur according to GAAP.
06.1.10 Procurement - Goods and Services	Procurement of goods and services, including contracts to operate the Agency and the TSP. Includes review, selection, and authorization of expenditures for Agency and TSP operations under small purchases, sole source, and competitive contracts.
06.1.11 Transmit Daily Disbursements to Treasury	For each business day, validate, authorize, and transmit daily disbursement transactions from TSP participant accounts to Treasury where the funds are paid out to participants via EFT or check.
06.1.12 Settlement on Trades with Asset Manager	Send or receive cash from Asset Manager in settlement of trades.
06.1.13 Submission of Tax Withholding on TSP Disbursements	Daily process of submitting tax withholding from TSP disbursements to Treasury and the 945 reconciliation and certification process.

# Step 5: Complete a Risk Assessment for Each Critical SubProcess

Status: Completed

- The risk assessment was determined based on the significance of the subprocess and the likelihood of the risk.
- The SAT reviewed the risk assessment and reached a consensus on the assessment of high, medium or low risk.



# Risk Assessment Guide

## **Significance**

High: The consequences would threaten the survival or continued effective functioning of the process or project and require senior level management intervention to maintain operations.

Medium: The consequences would not threaten the process but would mean that the process could be subject to significant difficulty or require a work around to continue operating.

Low: The consequences would threaten the efficiency or effectiveness of some aspect of the process, but could be dealt with internally.

## **Likelihood**

Likely: There is a significant probability that it will occur at some point.

Moderate: Might occur at some point, under certain foreseeable circumstances.

Unlikely: Could occur at some point, but only in unusual or exceptional circumstances.

## **Assigned Level of Risk**

High: Must be managed by senior management with a detailed plan.

Moderate: Management responsibility must be specified and managed by specific monitoring or response procedures.

Low: Managed by routine procedures and unlikely to need specific application of resources.

# Risk Assessment Template

Significance	High	Medium	High	High
	Medium	Medium	Medium	Medium
	Low	Low	Low	Medium
		Low	Medium	High
		Likelihood		



# Example of Risk Assessment

## **Office of Finance**

SubProcess: 06.1.01 Process Administrative Expenses

SubProcess Description: Recordation of expenses incurred and paid out for the administration of the TSP

Control Objective: Ensure accuracy and timeliness of payment of administrative expenses

**Significance: Medium**

Explanation: Payment and recordation of administrative payments, while important, are not critical daily processes. Corrections and rush payment mechanisms are available to avoid crisis situations.

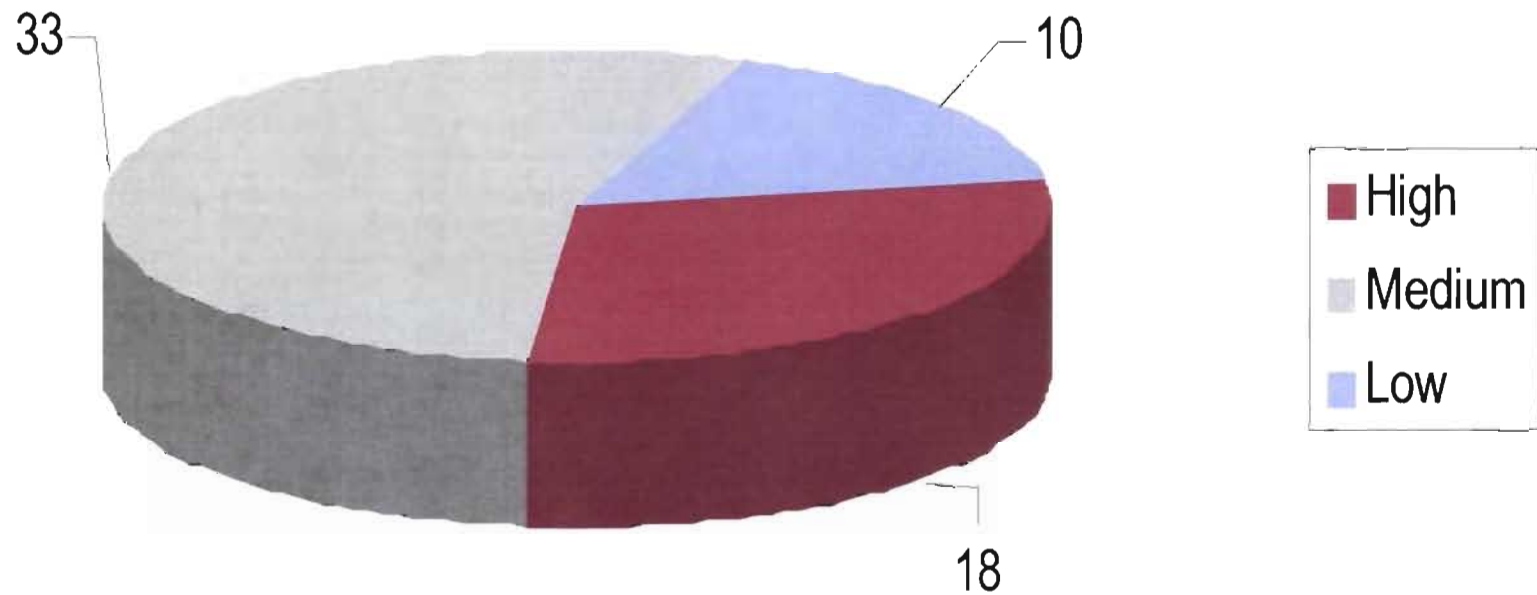
**Likelihood: Medium**

Explanation: Errors in processing individual payments occur from time to time. Complete failure of the process is possible through failure at NBC.

**Overall Level of Risk: Medium**

Additional comments: Use of automated NBC processes increases risk of failure, but we could handle payments manually if the automated process failed.

## Federal Retirement Thrift Investment Board Risk Assessments of 61 Subprocesses





# Step 6: Identify Existing Internal Controls

Status: Completed

- Existing Internal Controls have been identified by the SAT for each of the risks associated with the critical subprocess.

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- Process: Financial Management, 06.1.01 Process Administrative Expenses, Finance (06), 06.1 Financial Management
  - Risk: Office of Finance, Administrative Expenses, Inaccurate payments
    - Control: Accounting, Administrative Expenses, Department of Interior (NBC) Oracle system controls (SAS-70)
    - Control: Accounting, Administrative Expenses, Invoice and payment processing procedures
    - Control: Accounting, Administrative Expenses, Separation of Duties for Obligation Tracking & Invoicing System (OTIS) processing
  - Risk: Office of Finance, Administrative Expenses, Not recorded timely in investment
    - Control: Accounting, Administrative Expenses, Department of Interior (NBC) Oracle system controls (SAS-70)
    - Control: Accounting, Administrative Expenses, Invoice and payment processing procedures
    - Control: Accounting, Administrative Expenses, Separation of Duties for Obligation Tracking & Invoicing System (OTIS) processing
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- Process: Financial Management, 06.1.03 Track & Maintain Physical TSP Assets - Non IT, Finance (06), 06.1 Financial Management
- Process: Financial Management, 06.1.04 Human Resource Management, Finance (06), 06.1 Financial Management
- Process: Financial Management, 06.1.05 Investment - TSP Funds - Calculate Daily Share Prices, Finance (06), 06.1 Financial Management
- Process: Financial Management, 06.1.06 Daily Asset Manager - F, C, S, and I Fund Investment, Finance (06), 06.1 Financial Management
- Process: Financial Management, 06.1.07 Investment - Daily G Fund Investment - Treasury, Finance (06), 06.1 Financial Management
- Process: Financial Management, 06.1.08 Disposition of Agency Records, Finance (06), 06.1 Financial Management
- Process: Financial Management, 06.1.09 General Ledger - Maintain, Finance (06), 06.1 Financial Management
- Process: Financial Management, 06.1.10 Procurement - Goods and Services, Finance (06), 06.1 Financial Management
- Process: Financial Management, 06.1.11 Transmit Daily Disbursements to Treasury, Finance (06), 06.1 Financial Management
- Process: Financial Management, 06.1.12 Settlement on Trades with Asset Manager, Finance (06), 06.1 Financial Management
- Process: Financial Management, 06.1.13 Submission of Tax Withholding on TSP Disbursements, Finance (06), 06.1 Financial Management

Done

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# Step 7: Document Existing Internal Controls

Status: In process

- Documenting Existing Controls is ongoing – links to existing documentation.
- Link to operating procedures (available on the Agency's intranet).
- Link to system documentation will be tracked in Agency's new configuration management system (Serena).

# Step 8: Test and Update Internal Controls

Status: To be accomplished

- Test controls associated first with “high” risk assessments and document results.
- Subsequent testing will incorporate “medium” risk assessments.
- Review test results and take corrective actions where warranted.



# Going Forward

- Routinely retest “high” risk processes
- Incorporate external audit recommendations into internal control plans
- Tie in documentation of controls with ongoing assessments to routine COTR reviews

# Discussion Points

1. External audit of our Internal Controls?
  - Not required under A-123
  - Estimated cost is at least \$500,000 as well as additional staff time and resources
2. New audit contract in FY2009 – Audit of internal controls instead of mid-year review of financial statements? (Midyear review currently costs \$60,000)