

GAO

Report to the Ranking Member,
Committee on Oversight and
Government Reform, House of
Representatives

May 2007

**FEDERAL
RETIREMENT
THRIFT
INVESTMENT BOARD**

**Due Diligence Over
Administrative
Expenses Should
Continue and Be
Broadened**



G A O
Accountability · Integrity · Reliability

Highlights

Highlights of [GAO-07-541](#), a report to the Ranking Member, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The Federal Retirement Thrift Investment Board (FRTIB) is charged with managing the Thrift Savings Plan (TSP)—a key component of retirement savings for many federal employees—in the interest of its participants and beneficiaries. As part of a broader request on oversight of FRTIB, GAO reviewed (1) the administrative expenses of FRTIB and key components of these expenses, (2) whether the administrative expenses of FRTIB are the result of practices consistent with federal regulations and similar functions at other agencies, and (3) FRTIB's current method of benchmarking administrative expenses. GAO reviewed FRTIB's budgets, audited financial statements, a benchmarking study, and written responses to questions that GAO submitted. GAO also reviewed the regulations that guide FRTIB's spending.

What GAO Recommends

GAO recommends that the board members direct the Executive Director to continue exercising due diligence by identifying opportunities for continued cost savings, specifically in the areas of rent and travel. GAO also recommends that FRTIB expand its benchmarking practices to comparable individual activities. FRTIB partially concurred with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-541.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Susan J. Irving at (202) 512-9142 or irvings@gao.gov.

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

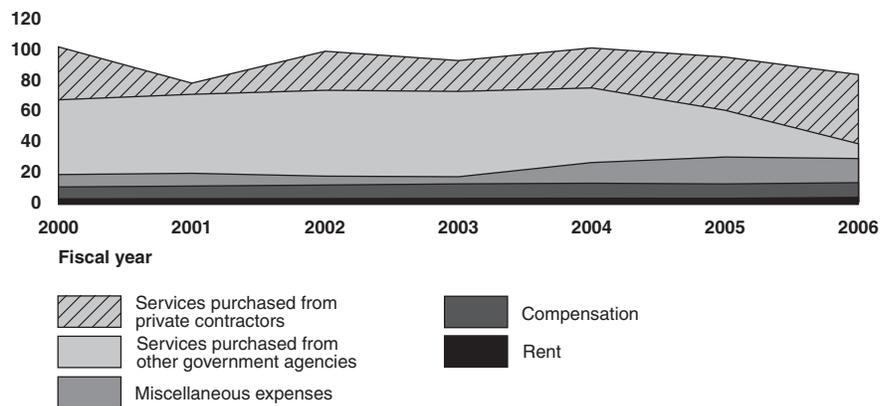
Due Diligence Over Administrative Expenses Should Continue and Be Broadened

What GAO Found

FRTIB's administrative expenses ranged from a peak of \$101 million in fiscal year 2000 to \$83 million estimated for fiscal year 2006. Only the 2001 administrative expenses were lower, reflecting the termination of a key contract. In real terms, FRTIB's administrative expenses in 2006 were at a 7-year low. Throughout this period more than half of FRTIB's administrative expenses went towards purchasing services from outside entities—private contractors and other government agencies. The next largest share of FRTIB's budget was for miscellaneous expenses, such as printing and information technology. Additional administrative expenses were spent on compensation of FRTIB's 65 employees, rent, and travel.

Total Administrative Expenses of FRTIB, Fiscal Years 2000-2006

Current year dollars in millions



Source: GAO analysis of FRTIB data.

Note: Travel expenses—which have been between .10 and .24 percent of expenses—are not included in the graph above because they are too small to be visually apparent.

FRTIB has established practices that are consistent with federal regulations—for acquisition, compensation, and travel. There are some areas, however, that suggest opportunities for future savings. The amount FRTIB pays per square foot is consistent with average rental rates that the General Services Administration (GSA) cites for nearby available properties. However, FRTIB rents more space per employee than GSA would recommend. Given recent downsizing, FRTIB has begun looking into consolidating its office space. Additionally, opportunities exist to reduce the travel expenses of TSP board members traveling to Washington, D.C.

FRTIB's current method of benchmarking TSP participants' investment fees against those charged by 401(k) plans is a very important measure for participants—and the TSP compares favorably on this measure. However, looking only at an aggregate measure provides insufficient information to judge whether individual activities are being conducted either to achieve the best performance or in the most efficient manner. Benchmarking by individual activity permits an organization to compare its performance with standards or "best in class" in a specific activity.

Contents

Letter		1
	Results in Brief	2
	Background	4
	Overview of Individual Categories of Expenses and Comparison of Expenses Against Other Agencies and Federal Regulations	10
	Miscellaneous Expenses	14
	FRTIB's Current Practice of Benchmarking Against the Cost of Participating in Private Sector 401(k) Plans Offers a Limited Means of Evaluating Administrative Expenses	20
	Conclusions	21
	Recommendations for Executive Action	22
	Agency Comments and Our Evaluation	22
Appendix I	Objectives, Scope, and Methodology	25
Appendix II	Comments from the Federal Retirement Thrift Investment Board	27
Appendix III	GAO Contact and Staff Acknowledgments	35
Figures		
	Figure 1: Total Administrative Expenses of FRTIB, Fiscal Years 2000-2006	8
	Figure 2: Expense Categories Used in This Report	9
	Figure 3: Administration Expenses in FRTIB's Budget, Fiscal Year 2006	10
	Figure 4: Services Purchased from Private Contractors and Other Federal Agencies, Fiscal Years 2000-2006	11
	Figure 5: Miscellaneous Expenses, Fiscal Years 2000-2006	14
	Figure 6: Compensation, Fiscal Years 2000-2006	16
	Figure 7: Rent, Fiscal Years 2000-2006	17
	Figure 8: Travel Expenses, Fiscal Years 2000-2006	19

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, DC 20548

May 14, 2007

The Honorable Tom Davis
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

The Thrift Savings Plan (TSP)—created in 1986—is a key component of the Federal Employees’ Retirement System (FERS). TSP holds about \$200 billion in retirement assets for more than three and a half million participants.¹ It is managed by the Federal Retirement Thrift Investment Board (FRTIB), an independent agency in the executive branch governed by five Presidentially appointed board members. Similar to private sector 401(k) pension plans, TSP allows federal employees to contribute a portion of their current compensation through payroll deductions and invest among a menu of options.

As part of a broader request on the oversight of FRTIB, you asked that we examine the administrative expenses of FRTIB. Specifically, we reviewed (1) the administrative expenses of FRTIB and the key components of these expenses, (2) whether the administrative expenses are the result of practices consistent with applicable federal regulations, and (3) FRTIB’s current method of benchmarking administrative expenses.

To identify the administrative expenses of FRTIB, we reviewed the President’s budget, FRTIB’s audited financial statements, FRTIB’s budget documents from board meeting notes and FRTIB’s written responses to questions we submitted.² To analyze the components of administrative expenses, we used the projections contained in FRTIB’s annual budget documents.³ FRTIB officials confirmed that these projections were analogous to what appears in budget documents for other agencies as “actuals.” For the purposes of this review, and consistent with how FRTIB

¹ Asset and participant numbers are as of November 2006.

² The numbers we use from FRTIB’s budget documents were prepared late in the fiscal year, which ends September 30.

³ Since the financial statements do not disaggregate data sufficiently for our purposes, we were not able to use them. We used projections because the board does not report actual expenses in its budget documents after the fiscal year is complete.

presented its budget to the board members for approval, we considered all expenses other than investment expenses to be administrative. We used budget object classifications to categorize FRTIB's administrative expenses.⁴ These categories can broadly fit into six groups: services purchased from private contractors, services purchased from government agencies, miscellaneous expenses, compensation, rental of space, and travel. There is some overlap in the descriptions. For example, the mission-related telephone service for the call centers should fall under services purchased from private contractors rather than miscellaneous expenses. However, because FRTIB budget data aggregate these expenses with charges such as postage and other miscellaneous expenses, we were unable to isolate the specific portion related to telephone services. To judge whether the administrative expenses of FRTIB are the result of practices consistent with federal regulations, we identified the regulations that guide FRTIB's expenses for activities, such as acquisition, and reviewed the Department of Labor's audits of FRTIB. To analyze FRTIB's current benchmarking practices, we reviewed a benchmarking study cited by FRTIB, notes from board meetings, and our relevant related work. We conducted our work in Washington, D.C. between October 2006 and May 2007 in accordance with generally accepted government auditing standards. Appendix I describes the scope and methodology of our work in greater detail.

Results in Brief

FRTIB's administrative expenses ranged from a peak of \$101 million in fiscal year 2000 to \$83 million estimated for fiscal year 2006. During this time period, only the fiscal year 2001 administrative expenses were lower than the 2006 estimated expenses, and that reflected the termination of a contract with American Management Systems to develop a record-keeping system. However, in real terms, FRTIB's administrative expenses in 2006 were at a 7-year low. Throughout this period more than half of FRTIB's administrative expenses went towards purchasing services from outside entities—private contractors and other government agencies. This was followed by miscellaneous expenses, compensation, rent, and travel.

For its administrative activities, FRTIB has established practices that are consistent with federal regulations. However, it has opportunities to

⁴ Budget object classifications are uniform classifications identifying the obligations of the federal government by the types of goods or services purchased (such as personnel compensation, supplies and materials, and equipment) without regard to the agency involved or the purpose of the programs for which they are used.

continue exercising due diligence. FRTIB is bound by federal regulations that govern acquisition, compensation, and travel. There are some areas, however, that suggest opportunities for future cost savings. The amount that FRTIB pays per square foot for rent is consistent with average rates that the General Services Administration (GSA) cites for nearby available properties. However, FRTIB rents more space per employee than GSA recommends. This is in part a reflection of the personnel downsizing that has occurred in recent years. Consistent with good management practices, FRTIB has indicated that it will be looking into the possibility of consolidating its space in 2007. Additionally, telecommunications provide opportunities to reduce the travel expenses of board members traveling to Washington, D.C. for monthly meetings.

FRTIB's current method of benchmarking TSP participants' investment fees against those charged by 401(k) plans offers incomplete information to assess administrative expenses. The investment fee is very important for the participants—and the TSP compares favorably on this measure. However, looking only at an aggregate measure—whether the investment fee or the total administrative costs—provides insufficient information to judge whether individual activities, such as purchased call center services from private contractors, are being conducted either to achieve the best performance or in the most efficient manner. Benchmarking by individual activity permits an organization to compare the performance of its individual processes/activities—and the way those processes/activities are conducted—with either standards or “best in class” in a specific activity. Benchmarking provides a feedback mechanism for continuous improvement.

To ensure that the FRTIB continues to operate as efficiently as possible, we recommend that the board direct the Executive Director to continue monitoring both the square footage and the cost per square foot of office space in the future to ensure that it is appropriate for its needs. In addition, FRTIB should consider expanding its use of telecommunications for its monthly board meetings, as appropriate. Finally, to provide the board with the most complete and relevant information with which to assess the expenses and performance of administrative functions of FRTIB, we recommend that the board direct the Executive Director to move beyond the comparison of participant costs against those for other 401(k) plans to benchmarking cost and performance of individual activities—either against similar activities elsewhere or against validated criteria or standards, such as federal regulations.

In comments on a draft of this report, FRTIB partially concurred with our findings and recommendations. While they agreed in concept with our recommendations, they stated that in-person board meetings are an extremely important aspect of fulfilling their fiduciary responsibilities and that the minimal travel costs associated with this decision were far outweighed by the benefits derived from in-person meetings. Our report acknowledges that in-person meetings are valuable and may be important for some discussions. Our recommendation merely states that FRTIB should consider expanding its use of telecommunications as appropriate.

FRTIB also concurred in concept with the use of benchmarking costs in appropriate situations. However, it noted that rather than separately benchmarking each component of its overall costs, it relies on the competitive procurement process to obtain outstanding performance for TSP participants at competitive rates. FRTIB's comments reflect a misunderstanding of our point. Our report does not suggest that the competitive bidding process be abandoned—we concur that it helps assure good performance at competitive costs. Nor do we dispute that FRTIB's processes have led to outstanding performance for TSP participants at competitive costs. Nonetheless, benchmarking is widely accepted in the private sector and in much of the public sector as a “best practice” in evaluating performance of specific activities. It offers a way to compare a specific function or activity to the same or similar one in other businesses or agencies. The essence of benchmarking is the process of identifying the highest standards of excellence for products, services, or processes, and then making the improvement necessary to reach those standards—commonly known as best practices. We have developed a body of work—best practice reviews—that provides guidance to help public sector organizations become world-class.

Written comments from FRTIB are included and addressed in appendix II. We have incorporated changes as a result of FRTIB's comments, as appropriate.

Background

The Federal Employees' Retirement System Act of 1986 (FERSA)⁵ created the Thrift Savings Plan (TSP), a retirement savings plan similar to private-

⁵ Pub. L. No. 99-335, 100 Stat. 514 (June 6, 1986). For details on defined contribution plans, see GAO, *Federal Pensions: DOL Oversight and Thrift Savings Plan Accountability*, [GAO-03-400](#) (Washington, D.C.: Apr. 23, 2003).

sector 401(k) plans, as a key component of the Federal Employees' Retirement System (FERS) for federal workers. Membership is open to federal and postal employees, members of Congress and their staff, members of the uniformed services, and members of the judicial branch. Participants are eligible for deferred federal (and in certain cases, state) income taxes on employee contributions and earnings. For employees covered by FERS, agencies make contributions to employees' TSP accounts. Agencies automatically contribute 1 percent of an employee's salary during each pay period to the TSP. Agency contributions for any employee who remains employed by the federal government until "vested" become part of that employee's retirement savings.⁶ Some employees are vested after 2 years of service; all other employees are vested at the end of 3 years of service. Agencies also match FERS employee contributions to the TSP up to a total of 5 percent of the employee's basic pay. As of November 2006, FRTIB managed about \$200 billion in assets for 3.5 million participants and beneficiaries.⁷

FRTIB—which administers the TSP—is an independent agency in the executive branch. As of the close of fiscal year 2006, FRTIB employed about 65 people. Some functions—such as enrollment and training of participants—are handled by other federal agencies rather than FRTIB. These other agencies' payroll and personnel offices act as the points of contact for TSP participants; these offices may assist with enrollment and alteration of contribution percentages. Additionally, the Office of Personnel Management has established a training program for retirement counselors of federal agencies. FRTIB is overseen by five Presidentially appointed board members and is charged with establishing policies for the investment and management of TSP funds and with creating administrative policies for the TSP.

FRTIB's administrative expenses are funded by (1) forfeited agency contributions and (2) assessments against net earnings of the Thrift Savings Fund. The 1 percent automatic agency contribution for FERS

⁶ Only employees who are "vested" are entitled to keep the contributions that an agency has made on their behalf. In other words only agency automatic contributions are affected by vesting; the participant is always vested in his or her matching contributions.

⁷ The investment options in the TSP are the G fund, a government securities fund; the F Fund, a fixed income securities fund; the C Fund, a common stock investment fund; the S Fund, a small capitalization stock investment fund; the I Fund, an international investment fund; and the L Funds, a series of five life-cycle funds. The L Funds are not separate funds; they merely consist of asset allocation mechanisms of the existing five TSP funds.

employees who leave before vesting are forfeited to the TSP. To finance the remainder of the FRTIB's administrative expenses, FRTIB assesses fees against the net earnings of the Thrift Savings Fund. FRTIB is required by law to use the forfeited funds before assessing fees against the net earnings of the Thrift Savings Fund.⁸ In both 2004 and 2005 these forfeited agency contributions covered about 13 to 15 percent of administrative expenses; assessments against net earnings of the Thrift Savings Fund were set at a level to cover the remaining 85 to 87 percent.

Outside contractors manage all investment funds other than the G fund. FRTIB has contracted with Barclays Global Investors (Barclays) to manage the F, C, S, and I funds. The L funds—which were introduced in August 2005—were designed by another private company, Mercer Investment Consulting. Consistent with generally accepted accounting principles, FRTIB's financial statements list these investment expenses as adjustments to investment income; they are not included in the line item for administrative expenses.

The cost to participate in a retirement fund is measured as an expense ratio of the total administrative expenses charged to a fund during a specific time period, divided by that fund's average balance for that specific time period.⁹ According to a 2005/2006 Deloitte Consulting 401(k) benchmarking survey, the average expense ratio for 401(k) plans was 75 basis points.¹⁰ In comparison, FRTIB charged participants only 4 basis points in fiscal year 2006.

According to FRTIB, it reviews its administrative expenses regularly through a variety of means. First, an independent entity audits administrative expenses as part of a larger financial audit of FRTIB. Second, the Department of Labor examines administrative expenses as part of its periodic FRTIB Administrative Staff review, which it conducts approximately once every 3 years. Third, as required by statute, board members prepare and submit to the President and Congress an annual

⁸ 5 U.S.C. §§ 8432(g), 8437(d).

⁹ This expense ratio is expressed in basis points, which are equal to .01 percent of the cost.

¹⁰ Deloitte Consulting, LLP, *Annual 401(k) Benchmarking Survey*, 2005/2006 Edition. Available at: <http://www.deloitte.com/dtt/article/0%2C1002%2Ccid%25253D124276%2C00.html> (Accessed Feb. 20, 2007).

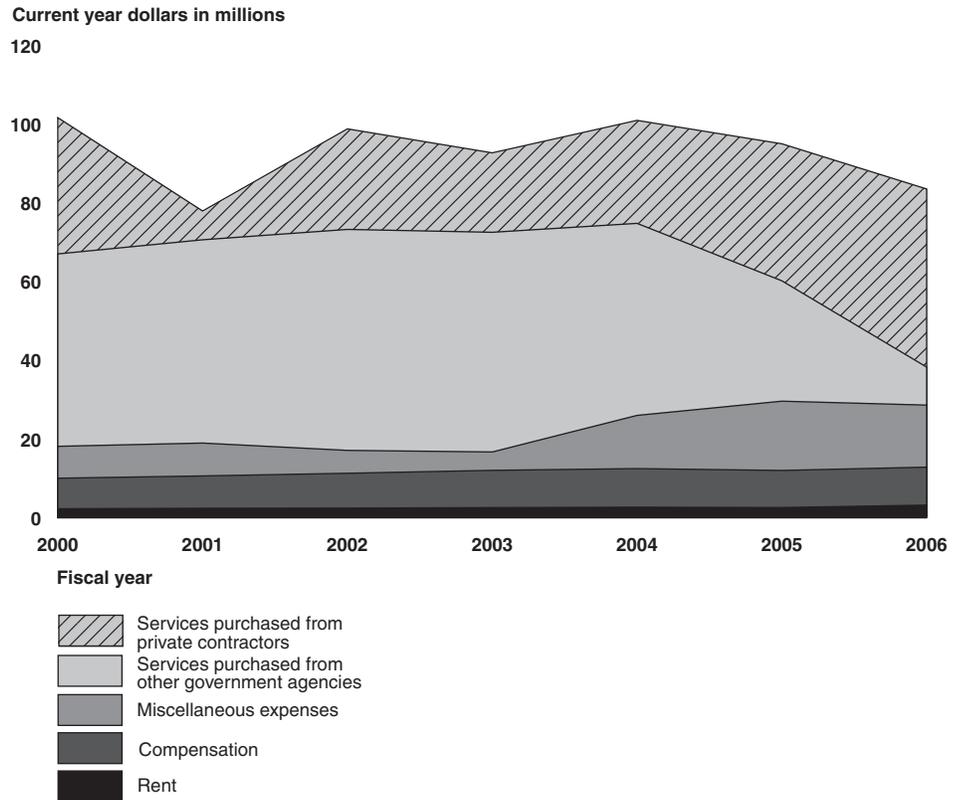
budget.¹¹ Fourth, each month since 2003, FRTIB has provided monthly reports to the Executive Director for review. Lastly, according to FRTIB, it contracts for all major TSP administrative services. Because the maximum contract length is 5 years, every major activity undergoes review and competition at a minimum of every 5 years.

Trends and Composition of Administrative Expenses

FRTIB's administrative expenses ranged from a peak of \$101 million in fiscal year 2000 to \$83 million estimated for fiscal year 2006. During this time period, only the fiscal year 2001 administrative expenses were lower than the 2006 expenses, and that reflected the termination of a contract with American Management Systems to develop a record-keeping system, which will be discussed in more detail below. However, in real terms, FRTIB's administrative expenses in 2006 were at a 7-year low. (See fig. 1 below).

¹¹ 5 U.S.C. § 8472(i).

Figure 1: Total Administrative Expenses of FRTIB, Fiscal Years 2000-2006



Source: GAO analysis of FRTIB data.

Note: Travel expenses—which have been between .10 percent and .24 percent of administrative expenses from fiscal years 2000 through 2006—are not included in the graph above because they are too small to be visually apparent. Investment fees paid to Barclays and Mercer Investment Consulting are not included in this graph because generally accepted accounting principles require these expenses to be offset against investment income and therefore are not classified as administrative expenses for financial reporting purposes.

There is no standard governmentwide definition of administrative expenses. For the purposes of this review, and consistent with how FRTIB presented its budget to the board for approval, we considered all expenses other than investment expenses to be administrative.

FRTIB purchases most of its administrative services from outside entities. Until 2005 these were purchased primarily from government agencies—99 percent of which were record-keeping and call center services provided by the National Finance Center. During fiscal years 2005 and 2006 the National Finance Center terminated its contracts with FRTIB, which began

purchasing these services from a private contractor. The only remaining major services purchased from another government agency are personnel and payroll services provided by the U.S. Department of the Interior.

As discussed before, we used budget object classifications to categorize FRTIB's administrative expenses into six broad groups.¹² Figures 2 and 3 describe the categories and show the breakout of these expenses in fiscal year 2006.

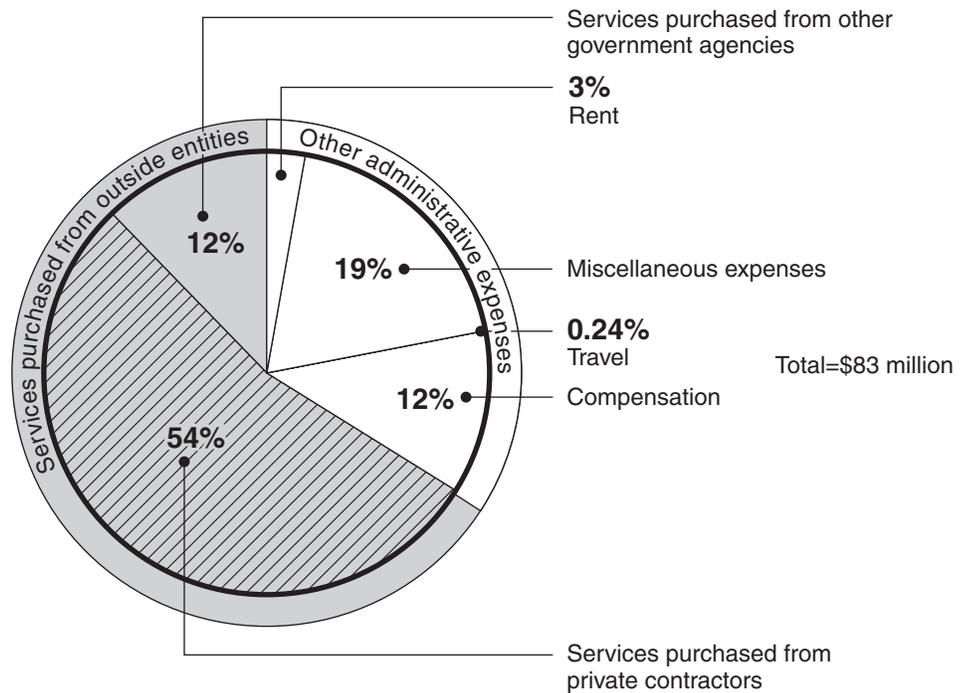
Figure 2: Expense Categories Used in This Report

- **Services purchased from private contractors** is comprised of the object classes of consultants and commercial contracts. Some of the services that FRTIB purchases through contracts are record-keeping and services provided for data and call centers. This does not include fees paid to manage investment accounts.
- **Services purchased from other government agencies** is comprised of the object classes of NFC and other government services. Some of these services are payroll and personnel services provided by the Department of the Interior.
- **Miscellaneous expenses** is comprised of the object classes of communications, utilities, and miscellaneous charges; printing; supplies and materials; transportation of things; and furniture and equipment. The subcategory of communications, utilities, and miscellaneous charges is primarily comprised of postage, delivery charges, and telephone service, according to FRTIB. We included mission-related telephone service for call centers in this category instead of services purchased from private contractors because the aggregated data provided by FRTIB did not permit us to isolate these charges from other miscellaneous expenses.
- **Compensation** is comprised of full and part-time staff salaries, as well as benefits.
- **Rent** is solely comprised of FRTIB's rental payments.
- **Travel** is comprised of FRTIB staff and TSP board travel.

Source: GAO analysis.

¹² As discussed earlier, we used budget data because FRTIB's financial statements did not disaggregate data sufficiently for our purposes. Budget object classifications are uniform classifications identifying the obligations of the federal government by the types of goods or services purchased (such as personnel compensation, supplies and materials, and equipment) without regard to the agency involved or the purpose of the programs for which they are used.

Figure 3: Administration Expenses in FRTIB's Budget, Fiscal Year 2006



Source: GAO analysis of FRTIB data.

Overview of Individual Categories of Expenses and Comparison of Expenses Against Other Agencies and Federal Regulations

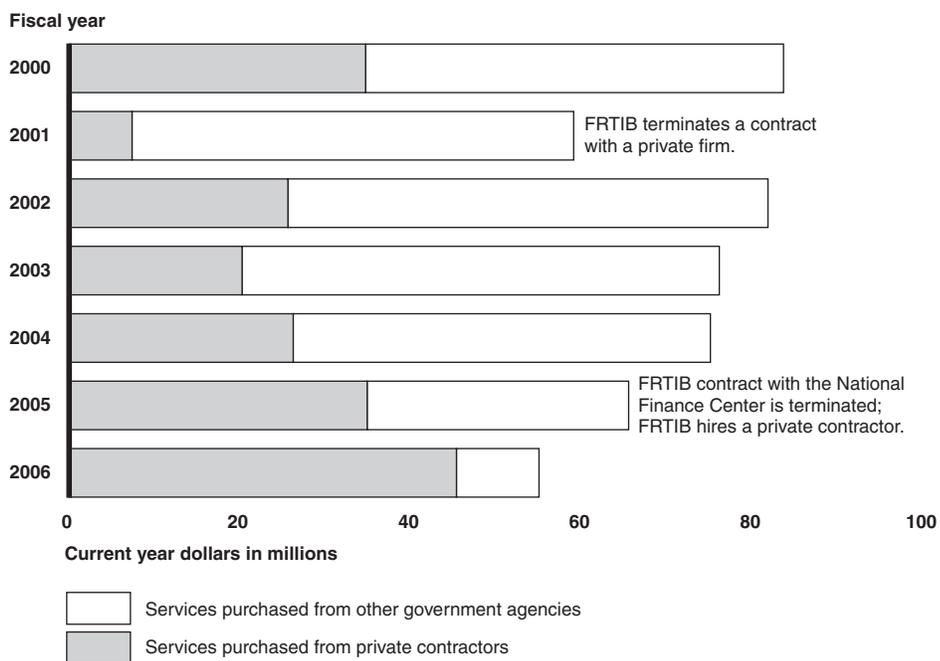
For its administrative activities, FRTIB has established practices that are consistent with federal regulations. However, it has opportunities to achieve cost savings. To purchase services and goods, FRTIB is required to follow the Federal Acquisition Regulation (FAR) and employee compensation is governed by federal pay schedules. For travel, FRTIB is bound by federal travel regulations. However, this is one place where opportunities may exist to reduce travel expenses by holding monthly board member meetings by teleconference where appropriate. FRTIB leases its own space directly rather than going through GSA. Although the cost per square foot for its headquarters is comparable to average rates that GSA cites for nearby available properties, the amount of space FRTIB rents is greater per employee than GSA recommends.¹³

¹³ To be consistent with the budget documents, we used current year dollars throughout the report. We confirmed that the analysis and conclusions would not change if dollars were adjusted for inflation.

Services Purchased from Private Contractors and Other Federal Agencies

The amount that FRTIB spends purchasing services from other entities is at a 7-year low.¹⁴ (See fig. 4 below.)

Figure 4: Services Purchased from Private Contractors and Other Federal Agencies, Fiscal Years 2000-2006



Since most administrative services are purchased from outside entities, it is not surprising that declines in spending on services purchased from

¹⁴ The “services purchased from other entities” category includes two subcategories: private contractors and services purchased from other government agencies. Private contractors is comprised of the object classes of consultants and commercial contracts. Some of the services that FRTIB purchases through contracts are record-keeping and services provided for data and call centers. This does not include fees paid to manage investment accounts. Services purchased from other government agencies is comprised of the object classes of National Finance Center and other government services. Some of these services are payroll and personnel services provided by the Department of the Interior.

outside entities—both private contractors and other federal agencies—parallel the declines in administrative expenses during the same period.

Although most administrative services are purchased from outside entities, the allocation between private contractors and federal agencies has changed over time. As figure 3 shows, from fiscal year 2000 through fiscal year 2004 FRTIB spent more money purchasing services from other government agencies than from private contractors. In shifting the acquisition of call center services from the National Finance Center to a private contractor in 2005, the balance was reversed. In 2006, the National Finance Center terminated all remaining services that it was providing to FRTIB. With the termination of the National Finance Center contracts, the only remaining major services purchased from another government agency were payroll and personnel services provided by the U.S. Department of the Interior.

Another change within FRTIB's expenses for services purchased from private contractors occurred in 2001. In 2001, FRTIB terminated a contract with American Management Systems, Inc., a private sector firm hired to design, develop, and implement a record-keeping system for the TSP that would provide daily investment updates.¹⁵ FRTIB then hired Materials, Communication & Computers, Inc. to complete the work that American Management Systems was unable to complete.

Although we did not review the reasonableness of FRTIB's individual contracts, we reviewed its process for acquiring goods and services. Overall, it follows a process that seeks to assure reasonable expenses. First, FRTIB is subject to the FAR—which governs acquisition activities. Second, FRTIB has one contract specialist and one purchasing agent on staff to ensure that acquisition occurs according to statute and regulation. Additionally, other staff are responsible for management and oversight of the individual contracts. For example, the agency's Chief Information Officer is responsible for managing a record-keeping contract and the Director of the Office of Participant Services is responsible for managing the two call center contracts. Each of these individuals monitors contracts

¹⁵ For more information about FRTIB's termination of the American Management Systems contract, see GAO, *Thrift Savings Plan: Delayed Allocation of Failed System Development Costs to Participant Accounts*, [GAO-03-827R](#) (Washington, D.C.: July 22, 2003).

through site visits and remotely.¹⁶ FRTIB plans to send agency directors for additional monitoring site visits in 2007. The travel expenses for these monitoring visits are included under travel and discussed later in this report.

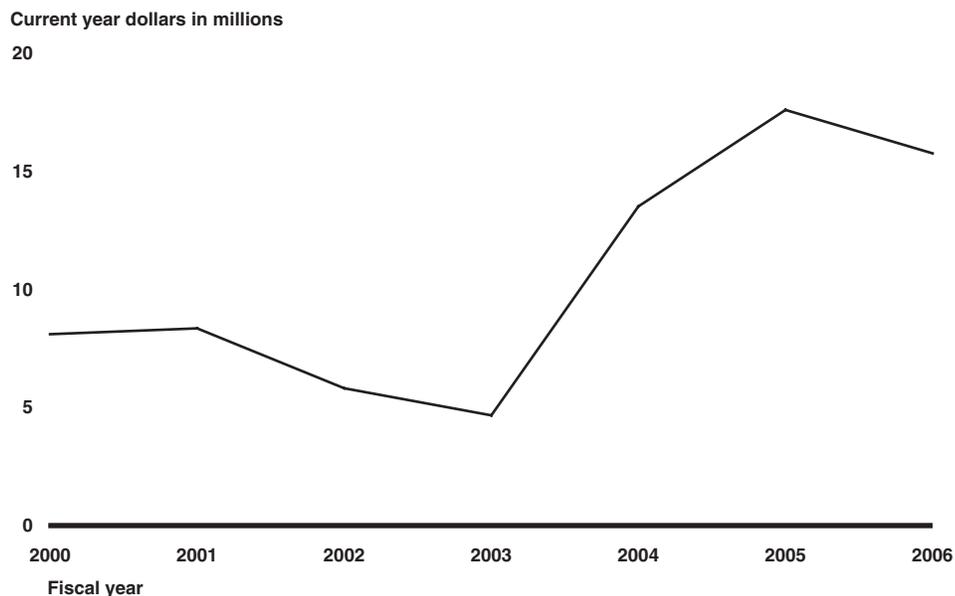
The Department of Labor provides additional oversight of FRTIB's contracts through its periodic audits. In 2005, the Department of Labor reported that FRTIB had reexamined service providers to find ways to increase services while decreasing costs. For example, FRTIB found that it could cut expenses in half by transferring information technology operations from the National Finance Center to SI International, a private contractor. The Department of Labor reviewed one call center in August 2006 and, according to FRTIB, the department is also planning to review another call center service contract in 2007.

¹⁶ For more information about call center monitoring, see GAO, *Federal Contact Centers: Mechanism for Sharing Metrics and Oversight Practices along with Improved Data Needed*, [GAO-06-270](#) (Washington, D.C.: Feb. 8, 2006).

Miscellaneous Expenses

In the years since 2003, a variety of factors have led to increased miscellaneous expenses.¹⁷ (See fig. 5 below.)

Figure 5: Miscellaneous Expenses, Fiscal Years 2000-2006



Source: GAO analysis of FRTIB data.

In fiscal year 2004, miscellaneous expenses jumped to about \$14 million, in part because FRTIB updated aging software and hardware. Second, in fiscal year 2005 FRTIB's printing expenses increased from about \$1 million to about \$11 million. FRTIB told us that this was a one-time extra expense to print information about a series of new TSP funds, the Lifecycle (L) funds. Lastly, in fiscal year 2006, FRTIB projected a ninefold increase from about \$1 million to about \$9 million in expenses for communications. This

¹⁷ The miscellaneous expenses category is comprised of the object classes of communications, utilities, and miscellaneous charges; printing; supplies and materials; transportation of things; and furniture and equipment, many of which are purchased from outside entities. The subcategory of communications, utilities, and miscellaneous charges is primarily comprised of postage, delivery charges, and telephone service, according to FRTIB. There is some overlap in the descriptions. For example, the mission-related telephone service for the call centers should fall under services purchased from private contractors rather than miscellaneous expenses. However, because FRTIB budget data aggregate these expenses with charges such as postage and other miscellaneous expenses, we were unable to isolate the specific portion related to telephone services.

was to pay for providing information to TSP plan participants about new passwords and account numbers to replace the use of Social Security numbers in the system. FRTIB also said that this spike would permit increased communications about the L funds. Although overall miscellaneous expenses began to decrease in 2006, it is unclear if expenses will continue to decrease or remain elevated.

Although we did not review FRTIB's individual contracts, it is required to follow the same regulations as other federal agencies regarding acquisition. As discussed above, FRTIB is required to follow the FAR and is routinely audited by the Department of Labor.¹⁸ Also, FRTIB has the ability to purchase goods through GSA. Although GSA does not guarantee the lowest price possible, use of GSA's Federal Acquisition Service ensures that the prices paid by FRTIB are reasonable and generally consistent with the prices paid by other agencies.¹⁹

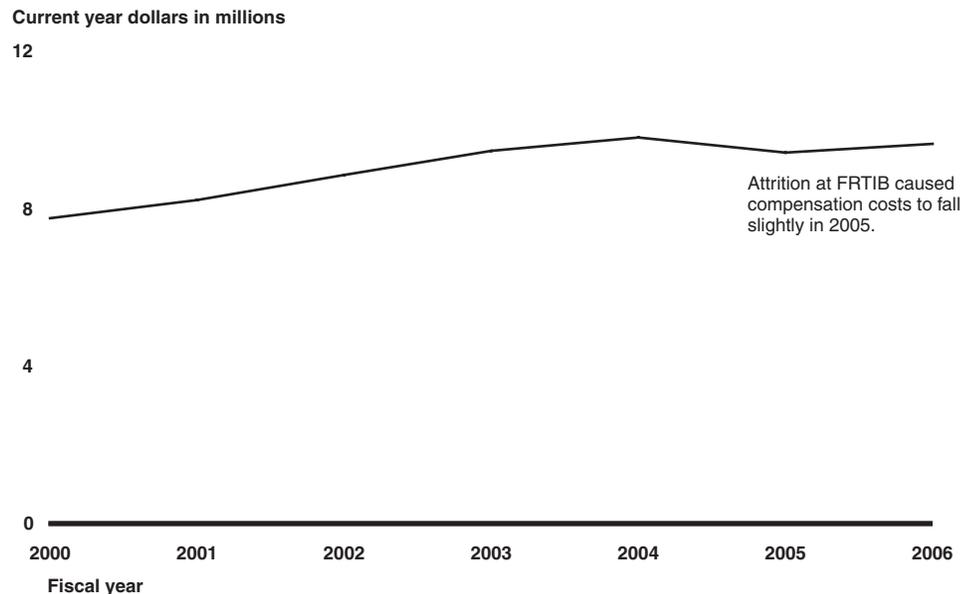
¹⁸ In a 2003 audit of FRTIB's procurement practices, the Department of Labor had no recommendations about ways to improve procurement practices and controls for compliance with FERSA's fiduciary and prohibited transaction practices.

¹⁹ For more discussion about the prices of the Federal Acquisition Service, please refer to GAO, *Contract Management: Opportunities to Improve Pricing of GSA Multiple Award Schedules Contracts*, [GAO-05-229](#) (Washington, D.C.: Feb. 11, 2005).

Compensation

FRTIB's compensation expenses have been relatively stable over the past 7 years. (See fig. 6 below.)²⁰

Figure 6: Compensation, Fiscal Years 2000-2006



Source: GAO analysis of FRTIB data.

Note: Compensation includes salaries and benefits.

FRTIB compensates employees according to federal pay schedules. Currently, FRTIB employs about 65 staff members, the majority of whom are paid according to the General Schedule. About 28 percent of these employees are compensated at or below the GS-11 level. Accordingly, to the extent that the composition of FRTIB's staff is appropriate, compensation costs appear reasonable. The Executive Director is compensated according to level three of the Executive Schedule.²¹ Additionally, 7 staff members are part of the Senior Executive Service.²² These Senior Executive Service positions are all approved by the Office of Personnel Management. Each of the 5 board members—who are not

²⁰ The compensation category includes salary and benefits.

²¹ 5 U.S.C. §5314.

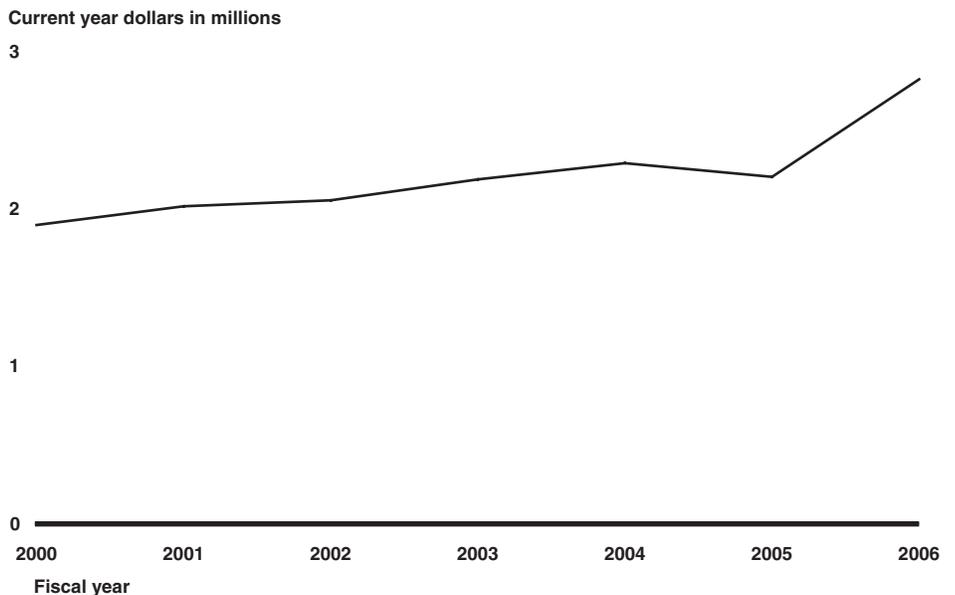
²² FRTIB had an additional five open senior executive positions available as of September 2006.

otherwise officers or employees of the federal government—are compensated at the daily rate of basic pay for level IV of the Executive Schedule for each day the board member is engaged in performing a function for FRTIB.²³

Rent

FRTIB’s total rent expenses remained relatively constant until fiscal year 2005.²⁴ (See fig. 7 below.) Rent expenses dropped in 2005 and increased again in 2006 coinciding with the lease of an emergency facility.

Figure 7: Rent, Fiscal Years 2000-2006



Source: GAO analysis of FRTIB data.

The majority of FRTIB’s rental expenses are associated with renting a headquarters office in Washington, D.C. FRTIB rents its own office space, which means it does not need to go through GSA. However, GSA rents space on behalf of many federal agencies and thus has a rich database of local rent prices. Accordingly, we compared the amount that FRTIB pays

²³ 5 U.S.C. § 8476(d)(1).

²⁴ The rent category is solely comprised of rental payments.

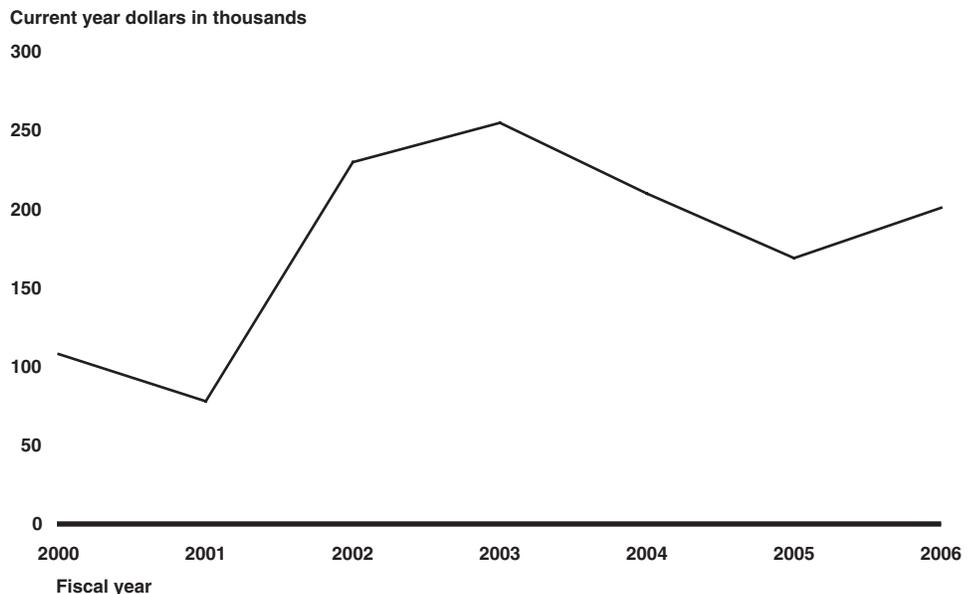
per square foot in fiscal year 2007 with the average rates that GSA cited for nearby available properties. At \$28 per square foot in 2007, the per square foot rental rate—which includes operating expenses such as utilities, building security, maintenance, and cleaning—is in line with average market rates for nearby available properties with comparable square footage.

Currently, FRTIB rents more than 47,000 square feet. At its present staff size, FRTIB rents more space per person than GSA would recommend. Based on FRTIB's mission, a GSA official told us that FRTIB's space needs are likely similar to a model that proposes 368 rentable square feet per person. At its current staffing level of 65 employees, FRTIB's headquarters provides more than 670 square feet per person, about 300 square feet more per person than GSA would recommend. This calculation, however, is somewhat misleading because of the recent personnel downsizing at FRTIB. In the 7 years covered by our review, employment at FRTIB peaked at 111 staff members. Yet, even at its peak staffing, FRTIB rented about 430 square feet per person, about 60 square feet more per person than GSA would recommend. In light of recent declines in staff numbers, and consistent with good management practices, at a September 2006 board meeting FRTIB staff indicated that they would look into consolidating space at the headquarters location.

Travel

Over the past 7 fiscal years, travel expenses varied considerably, ranging in current year dollars from a low of about \$80,000 in fiscal year 2001 to a high of about \$255,000 in fiscal year 2003.²⁵ In fiscal year 2006 travel expenses fell slightly above the middle of this range at about \$200,000. (See fig. 8.)

Figure 8: Travel Expenses, Fiscal Years 2000-2006



Source: GAO analysis of FRTIB data.

FRTIB travel is governed by federal travel regulations. The fiscal year 2006 travel we examined was consistent with these regulations and appears reasonable given federal daily allowances for lodging, meals, and incidental expenses and current cost trends for common carriers.²⁶

The largest portion of fiscal year 2006 travel was for contract oversight, about 38 percent of which was associated with the one-time expense of transitioning the call center from the National Finance Center to a new

²⁵ The travel category contains travel expenses for FRTIB staff and the five board members.

²⁶ FRTIB governs travel by board members and employees under FRTIB Directive 10D and in accordance with Federal Travel Regulations (FTR). 5 U.S.C. §5701-5760, 41 C.F.R. Ch. 301-304.

contractor, SI International. Although about 20 percent of FRTIB's trips were to other federal agencies to conduct training and make presentations, since the host agency often paid for these trips, they accounted for only about 5 percent of travel expenses.

In fiscal year 2006, FRTIB spent about \$27,000 to bring board members to Washington, D.C.²⁷ These expenses are associated with travel from locations as disparate as Alaska and New York, and require, in general, a 2-night stay in Washington, D.C. Although FRTIB reports that it has not issued any first or business class tickets to any employee, it has on occasion issued a first or business class ticket to a board member traveling from Alaska when coach fares were not available. Although the law requires monthly meetings, and the practice has generally been to meet in person, on occasion members of the board have participated in these meetings by telephone—some more than others. Meetings that occur through telecommunications rather than in person save money for FRTIB and sometimes may be appropriate.

FRTIB's Current Practice of Benchmarking Against the Cost of Participating in Private Sector 401(k) Plans Offers a Limited Means of Evaluating Administrative Expenses

FRTIB's current method of benchmarking its costs by comparing the fees assessed to TSP participants against the fees assessed to participants in private 401(k) plans provides important but incomplete information about its administrative costs and efficiency. This measure is very important for participants—and the TSP compares favorably on this measure. It does not, however, provide a complete picture of administrative expenses or sufficient information for oversight of administrative activities.²⁸

Looking only at an aggregate measure—whether the investment fee or the total administrative costs—provides insufficient information to judge whether individual activities are being conducted either to achieve the best performance or in the most efficient manner. Disaggregating FRTIB's activities and benchmarking those individual activities against similar ones elsewhere would provide the board a better picture of the performance and efficiency of these activities. Although no other federal agency performs the same mission as FRTIB, the individual activities it performs to fulfill that mission can be found in other agencies and outside

²⁷ FERSA states that the board "shall meet—(1) not less than once during each month; and (2) at additional times at the call of the Chairman." 5 U.S.C. 8476(a).

²⁸ Private sector 401(k) plans report the amount charged to the investor for participation in the investment fund; for most plans this is not a measure of administrative expenses.

government. For example, other agencies—such as the Centers for Disease Control and Prevention and GSA—purchase call center services from private contractors. Benchmarking by individual activity permits an organization to compare the performance of its individual processes/activities—and the way those processes/activities are conducted—with either standards or “best in class” in a specific activity. Benchmarking provides a feedback mechanism for continuous improvement.²⁹

Conclusions

FRTIB’s falling administrative expenses appear to reflect an overall commitment to manage the TSP in the interest of the participants and beneficiaries of TSP. Consistent with this commitment FRTIB is looking into consolidating its office space. We also note that on occasion board members have elected to participate in the monthly meetings by telephone. The use of telecommunications has increased throughout both government and the private sector. Although in-person meetings are valuable and may be important for some discussions, increasing the use of telecommunications for monthly meetings could further reduce expenses. For example, if the board found it appropriate to meet monthly by teleconference and quarterly in person, travel costs would be reduced.

Since FRTIB follows practices that seek to constrain expenses within federally regulated parameters, its success in maintaining low expenses is not surprising. In fact, FRTIB’s fiscal year 2006 administrative expenses were near a 7-year low. Moving beyond comparing costs charged to TSP participants with costs charged by other 401(k) plans to benchmarking the cost and performance of individual activities would be consistent with a commitment to continuous improvement and being alert to opportunities to further improve performance and/or reduce costs. It would also assist the board as it seeks to assure that the TSP is managed in the interest of its participants and beneficiaries.

²⁹ For a discussion and examples of benchmarking by administrative function, see GAO, *Managing for Results: Critical Actions for Measuring Performance*, [GAO/T-GGD/AIMD-95-187](#) (Washington, D.C.: June 20, 1995); *Public-Private Partnerships: Key Elements of Federal Building and Facility Partnerships*, [GAO/GGD-99-23](#) (Washington, D.C.: Feb. 3, 1999); *Management Reform: Agency Initial Efforts to Restructure Personnel Operations*, [GAO/GGD-98-93](#) (Washington, D.C.: July 13, 1998).

Recommendations for Executive Action

To ensure that FRTIB continues to operate as efficiently as possible, we recommend that the board direct the Executive Director to continue monitoring both the square footage and cost per square foot of office space in the future to ensure that it is appropriate for its needs. In addition, FRTIB should consider expanding its use of telecommunications for its monthly board members' meetings, as appropriate.

To provide the board with the most complete and relevant information with which to assess the expenses and performance of administrative functions of FRTIB, we recommend that the board direct the Executive Director to move beyond the comparison of participant costs against those for other 401(k) plans to benchmarking cost and performance of individual activities—either against similar activities elsewhere or against validated criteria or standards, such as federal regulations.

Agency Comments and Our Evaluation

In comments on a draft of this report, FRTIB partially concurred with our findings and recommendations. While they agreed in concept with our recommendations, they stated that in-person board meetings are an extremely important aspect of fulfilling their fiduciary responsibilities and that the minimal travel costs associated with this decision were far outweighed by the benefits derived from in-person meetings. However, consistent with FRTIB's commitment to managing the TSP in the interest of participants and beneficiaries of TSP, we note that use of telecommunications offers opportunities to further reduce expenses. Our report acknowledges that in-person meetings are valuable and may be important for some discussions. Our recommendation merely states that FRTIB should consider expanding its use of telecommunications as appropriate. With respect to its square footage, FRTIB said it would continue to monitor and assess its office space needs and related costs in relation to projected staffing levels.

FRTIB also concurred in concept with the use of benchmarking costs in appropriate situations. However, it noted that rather than separately benchmarking each component of its overall costs, it relies on the competitive procurement process to obtain outstanding performance for TSP participants at competitive rates. FRTIB's comments reflect a misunderstanding of our point. The report does not suggest that benchmarking would lead to changes in contracts during the contract period. Nor does our report suggest that the competitive bidding process be abandoned—we concur that it helps assure good performance at competitive costs. Nor do we dispute that FRTIB's processes have led to outstanding performance for TSP participants at competitive costs. To the

contrary, companies and agencies that are viewed as leaders in their operations use benchmarking.

Benchmarking is widely accepted in the private sector and in much of the public sector as a “best practice” in evaluating performance of specific activities. It offers a way to compare a specific function or activity to the same or similar one in other businesses or agencies. The essence of benchmarking is the process of identifying the highest standards of excellence for products, services, or processes, and then making the improvement necessary to reach those standards—commonly known as best practices. We have developed a body of work—best practice reviews—that provides guidance to help public sector organizations become world-class.

Such benchmarking of best practices could be helpful to FRTIB. For example, as the term of a contract for call center operations nears completion and FRTIB considers the design of the successor contract, it could look at the scope or services, performance measures used and performance attained, and costs of other excellent call centers in developing the criteria for that next contract.

In addition to these key comments, FRTIB provided technical comments. The full written comments from FRTIB are included and addressed in appendix II. We have incorporated changes as a result of these comments, as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. At that time, we will send copies of this report to the Executive Director of FRTIB and interested congressional committees. This report will also be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me on (202) 512-9142 if you or your staff have any questions about this report. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. Other contacts and staff acknowledgments are listed in appendix III.

Sincerely yours,

A handwritten signature in black ink that reads "Susan J. Irving". The signature is written in a cursive style with a large, looped initial "S".

Susan J. Irving
Director, Federal Budget Analysis
Strategic Issues

Appendix I: Objectives, Scope, and Methodology

To identify the administrative expenses of the Federal Retirement Thrift Investment Board (FRTIB) we reviewed the President’s budget, FRTIB’s audited financial statements, FRTIB’s budget documents from meeting notes of the board members, and FRTIB’s written responses to our questions. To analyze the components of administrative expenses, we used the projections contained in the board members’ annual budget documents. The numbers we used from FRTIB’s budget documents were prepared late in the fiscal year, which ends September 30. FRTIB officials confirmed that the projections were analogous to what appears in budget documents for other agencies as “actuals.” We reviewed FRTIB’s audited financial statements for information about FRTIB’s financial contractual commitments. The administrative expenses listed in the financial statements were not disaggregated sufficiently for our purposes. As a result, they did not provide the detail that we needed for our analysis. To be consistent with the budget documents, we used current year dollars throughout the report. We confirmed that the analysis and conclusions would not change if dollars were adjusted for inflation.

To judge whether the administrative expenses of FRTIB are the result of practices consistent with federal regulations, we identified the regulations that guide FRTIB’s expenses for activities such as compensating employees. To analyze the applicability of the Federal Acquisition Regulation (FAR) to FRTIB’s acquisition activities, we reviewed statutory requirements and court cases. We also reviewed GAO guidance for assessing the acquisition function at federal agencies.¹ To compare the rent that FRTIB pays for its headquarters office with the amount that other federal agencies would pay for downtown office spaces we reviewed FRTIB’s current lease. We then compared the parameters of the lease with a database of properties from the General Services Administration (GSA). Because GSA rents office space for other agencies, it has access to a rich database of available properties and current rents. To review the compensation of FRTIB staff members, we analyzed the Office of Personnel and Management’s Central Personnel Data File, a file of all personnel actions in the federal government. This allowed us to identify the pay plans that FRTIB uses to compensate employees, the positions held by FRTIB staff, as well as actual staffing levels for the time period covered by our analysis. To analyze travel expenses, we compared the travel records that FRTIB gave to us for fiscal year 2006 to expected travel

¹ GAO, *Framework for Assessing the Acquisition Function at Federal Agencies*, GAO-05-218G (Washington, D.C.: September 2005).

expenses for locations given standard per diem rates and negotiated air fares. We also reviewed FRTIB's responses to questions we submitted.

To analyze FRTIB's current benchmarking practices, we reviewed a benchmarking study cited by FRTIB,² notes from the board members' meetings, relevant GAO work, and FRTIB responses to questions we submitted.

We conducted our work in Washington, D.C., between October 2006 and May 2007 in accordance with generally accepted government auditing standards.

² We reviewed a benchmarking study from Deloitte Consulting, Inc. that compares the basis points charged by various 401(k) plans.

Appendix II: Comments from the Federal Retirement Thrift Investment Board

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

April 16, 2007

Ms. Susan J. Irving
Director, Federal Budget Analysis
Strategic Issues
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Ms. Irving:

This letter is in response to your request for comments on the draft report now entitled "Federal Retirement Thrift Investment Board: Due Diligence Over Administrative Expenses Should Continue and Be Broadened."

The draft General Accountability Office (GAO) report provides two recommendations for Executive Action. This letter contains our responses to each recommendation, as well as corrections and suggested changes to the text of the draft report.

A. Recommendations

Recommendation No. 1: To ensure that the FRTIB continues to operate as efficiently as possible, we recommend that the Board direct the Executive Director to continue to monitoring both the square footage and cost per square foot of office space in the future to ensure that it is appropriate for its needs. In addition, FRTIB should consider expanding its use of telecommunications for its monthly Board member meetings, as appropriate.

Response: We concur with this recommendation. The Agency will continue to monitor and assess its office space needs and related costs in relation to its projected staffing levels. As we are in the middle of a multi-year lease for our office space at 1250 H St., we will also consider any costs and benefits that might be incurred by a decision to revise the lease or sublet part of our office space. We note that any reduction in the space leased by the Agency would not result in a material change to the overall Agency budget. We note that our General Counsel has opined that the Agency is not required to use the GSA for

See comment 1.

Appendix II: Comments from the Federal Retirement Thrift Investment Board

leasing services, a position to which the GSA has acceded. (See attached memorandum.)

See comment 2.

The second part of this recommendation states that the FRTIB should consider expanding its use of telecommunications for its monthly Board member meetings, as appropriate. I and the members of the Board believe that in-person Board meetings are extremely important aspect of fulfilling our fiduciary and due diligence responsibilities under FERSA. The annual number of in-person Board meetings is debated and decided by the Board members themselves, and they have been very deliberate in their decision to conduct their monthly meetings in person as frequently as possible in order to monitor Agency operations closely. The minimal travel costs associated with this decision are far outweighed by the benefits derived from in-person meetings.

Recommendation No. 2: To provide the Board with the most complete and relevant information with which to assess the expenses and performance of administrative functions of the FRTIB, we recommend that the Board direct the Executive Director to move beyond the comparison of participant costs against those for other 401(k) plans to benchmarking cost and performance of individual activities - either against similar activities elsewhere or against validated criteria or standards, such as federal regulations.

Response: We concur with the use of benchmarking of costs in appropriate situations. The Agency is always mindful of its responsibility to ensure prudent use of TSP resources. In fact, as the report notes, overall TSP administrative costs, which include all Agency expenditures, compare extremely favorably with private sector 401(k) plans, which we view as the most appropriate benchmark. TSP total administrative costs, including all record keeping and staff costs, as well as investment costs, were only three basis points in 2006. This is far lower than the reported costs of any other 401(k) plan (the report cites an average of 75 basis points) and is in fact several times less than the reported investment expenses alone for the cheapest 401(k) plans.

See comment 3.

However, rather than separately "benchmarking" each component of our overall costs, as the report recommends, we rely on the competitive procurement process to obtain outstanding performance for TSP participants at competitive costs. Using the competitive procurement process, we have achieved exceptional cost savings for TSP participants in a number of

areas, including investment management and call center operations. The competitive process is in fact the best type of benchmarking, because it requires competing companies to make firm business proposals with real costs in a competitive environment. Proposals are evaluated from both a technical and cost standpoint. Once a contract agreement is entered into, our focus shifts to monitoring the contractor's performance to ensure that it is providing the required services at the price promised. Although contracts can always be terminated for convenience, we believe that contractors have the right to expect when they make their cost proposals that we will continue to honor the contract as long as they continue to perform. Therefore, "benchmarking" has limited value during the duration of the contract if it implies a decision to change the contract terms after the fact.

While the report specifically recommends further benchmarking of the costs of our two call center operations, we believe that our two competitively procured call center contracts are in fact evidence of the efficacy of our practice of regularly engaging in competitive procurements for call center operations. When compared to the previous arrangement with the National Finance Center, those contracts have resulted in significant cost savings as well as improved service and backup capabilities. While we regularly monitor the quality of each contractor's performance using an outside consultant and internal measures, we believe that "benchmarking" of costs for the call centers will occur during the next procurement cycle.

B. Other Edits

The draft report contains the following factual error

1. The summary page states the FRTIB's current method of benchmarking TSP participants' investment fees against those charged by 401(k) plans offers "incomplete information" to assess administrative expenses. For the following reasons, as well as those articulated above, we do not agree with this comment:

The Agency maintains complete information on all TSP administrative expenses, which are accurately and thoroughly disclosed to Board members, our participants, and members of the public through our statutorily mandated audited financial statements, which are available on the TSP website. Further expense information is provided to the Board, the press, and the public at the annual Board meeting where the Agency budget is

See comment 4.

Appendix II: Comments from the Federal Retirement Thrift Investment Board

See comment 5.

discussed, reviewed, and approved by the Board. It is not the Agency's responsibility to ensure that private sector 401(k) plans adopt similar levels of public disclosure so that there would be better benchmarking opportunities for the TSP. Further, the report does not document a single instance where such benchmarking has been performed either in the government or private industry or describe the actual value derived from that benchmarking.

See comment 6.

See comment 7.

1. In the discussion on page 2, it is not clear to us why the GAO does not consider telephone service for the call centers to be a mission-related service purchased from a private contractor. We certainly believe it to be so. We caution that the categories into which certain budget items are required to be placed by OMB rules when submitting our budget to the President and the Congress cannot be correlated with the proper budget category for program evaluation purposes.

See comment 8.

2. On page 5, in the first paragraph, the statutory formula for the FERS Agency automatic contribution is one percent of "basic pay" which is not always the same as "salary"; also, it is not made clear that only the Agency automatic contribution is affected by vesting. The participant is always vested in his or her matching contributions. We also note that specific contribution rules apply to the members of the uniformed services (e.g., contributions from pay earned in a combat zone are tax exempt and contributions from special pay, incentive pay, and bonuses are allowed). In the last sentence of the paragraph, the correct number of participants as of November, 2006 was 3.5 million.

See comment 9.

3. On page 5, in the second paragraph, at the end of FY2006, the FRTIB employed 65 people. Also, OPM has performed the functions described in this report as a result of its statutory responsibilities.

See comment 10.
Now on pps. 5 and 6.

4. In the first sentence of the second paragraph on page 6, the word "accounts" should be replaced by the word "funds". Also, you should clarify that the "L funds" are not separate funds, but merely asset allocations mechanisms consisting of the existing five TSP funds.

See comment 11.
Now on p. 10.

5. The draft report states in several places (e.g., page 11) that the FRTIB is required to follow the Federal Acquisition Regulation (FAR). The Agency's General Counsel

Appendix II: Comments from the Federal Retirement Thrift Investment Board

has concluded that the Agency is not subject to Federal procurement rules. (See attached memorandum.) The Agency voluntarily follows the provisions of the FAR to the extent that it concludes that this fosters adherence to fiduciary principles. This position has been reviewed and endorsed by the Department of Labor.

6. On page 9, the document incorrectly states that the FRTIB terminated its contracts with the National Finance Center (NFC). As we stated in our November 6, 2007 response to the initial set of GAO questions, on March 9, 2006, the NFC provided notice to the FRTIB that it would terminate all services to the TSP effective June 9, 2006.
7. On page 7, in the fifth sentence, the word "reportedly" should be removed, since it appears to suggest that reports may not actually be provided, whereas the Board minutes clearly show that they are.
8. On page 9, the discussion should clarify that the NFC terminated its contracts with the FRTIB. Also, the Department of Interior provides personnel as well as payroll services to the Agency; this is correctly stated in Figure 2.
9. In Figure 3, the graph is misleading due to the GAO decision to place telephone services for the call centers under the category "Miscellaneous office expenses," rather than under the category of "Services Purchased from Private Contractors." As noted in comment 2 above, use of the OMB budget reporting categories does not cause these expenses to be categorized correctly for program purposes. The same error exists in Figure 4 and Figure 5.
10. On page 14, last sentence, the word "contract" should be changed to "call center".

Sincerely,



Gregory T. Long
Executive Director

Enclosure

See comment 12.
Now on p. 8.

See comment 13.

See comment 14.
Now on pps. 8 and 9.

See comment 15.

See comment 16.

See comment 17.
Now on p. 13.

GAO Comments

1. Our report states that FRTIB leases its own space directly rather than going through GSA—we did not indicate nor imply that FRTIB is required to use GSA for leasing services.
2. Our report acknowledges that in-person meetings are valuable and may be important for some discussions. However, consistent with FRTIB’s commitment to managing the TSP in the interest of participants and beneficiaries of TSP, we note that use of telecommunications offers opportunities to further reduce expenses. Our recommendation states merely that FRTIB should consider expanding its use of telecommunications as appropriate.
3. The FRTIB’s comments on our benchmarking recommendation reflect a misunderstanding of our point. Our report notes that benchmarking should go beyond a comparison of TSP’s investment fees (cost to participants) with those of other 401(k) plans. It does not suggest that benchmarking would lead to changes in contracts during the contract period. Nor does our report suggest that the competitive bidding process be abandoned—we concur that it helps assure good performance at competitive costs. Further, we do not dispute that the FRTIB’s processes have led to outstanding performance for TSP participants at competitive costs. Nor should the mention of call centers as one example of an activity in which other agencies also engage be read as a criticism of FRTIB’s call center operations. To the contrary, companies and agencies that are viewed as leaders in their operations use benchmarking.

Benchmarking is widely accepted in the private sector and in much of the public sector as a “best practice” in evaluating performance of specific activities. It offers a way to compare a specific function or activity to the same or similar one in other businesses or agencies. The essence of benchmarking is the process of identifying the highest standards of excellence for products, services, or processes, and then making the improvement necessary to reach those standards—commonly known as best practices. We have developed a body of work—best practice reviews—that provides guidance to help public sector organizations become world-class.

Such benchmarking of best practices could be helpful to FRTIB. For example, as the term of a contract for call center operations nears completion and the FRTIB considers the design of the successor contract, it could look at the scope or services, performance measures used and performance attained, and costs of other excellent call centers in developing the criteria for that next contract.

4. Our report states that looking only at investment fees offers an incomplete picture of administrative expenses and that looking at total administrative expenses in the aggregate provides incomplete information for judging whether individual activities are being conducted in the most efficient matter. We did not discuss or opine on FRTIB's disclosure of administrative expenses.
5. Our report notes that benchmarking should go beyond a comparison of TSP's investment fees (cost to participants) with those of other 401(k) plans. It does not suggest that it is FRTIB's responsibility to ensure that private sector 401(k) plans adopt similar levels of public disclosure.
6. See comment 3.
7. We agree that telephone services for the call centers are mission-related services. However, because budget data provided by the FRTIB aggregates such expenses with charges such as postage and other miscellaneous expenses, we were unable to separate these expenses from others in this category. Nonetheless, we have clarified the report to indicate that expenses associated with telephone service for call centers, although mission-related, were included under miscellaneous expenses.
8. We revised the report text as suggested.
9. We revised the report text as suggested.
10. We revised the report text as suggested.
11. We disagree with FRTIB's comment that it is not subject to the federal procurement rules. First, FRTIB is an executive agency under 41 U.S.C. § 405(a) and thus subject to the FAR. Moreover, we are unaware of any, and FRTIB has not identified any, express exclusion for FRTIB. Second, FRTIB cites as support a 1987 internal memo that states "One of the most important criteria applied by the courts and agencies, in determining the applicability of acquisition regulations is the source of funds being expended." The memo concludes that FRTIB does not pay its administrative expenses with appropriated funds. In a 2002 contract dispute with one of its contractors, the United States Court of Federal Claims rejected each one of FRTIB's arguments that its administrative

expenses are not payable out of appropriated funds.¹ Since the FAR applies to acquisitions by contract with appropriated funds, and the FRTIB has not addressed the court's ruling, we stand by the position that FRTIB is subject to the FAR.

12. We revised the report text as suggested.
13. We revised the report text as suggested.
14. See comment 12.
15. We revised the report text as suggested.
16. See comment 7.
17. Clarified text to indicate it is a call center service contract.

¹*American Management Systems v. United States*, 53 Fed. Cl. 525, 529 (2002).

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Susan J. Irving, (202) 512-9142 or irvings@gao.gov

Acknowledgments

In addition to the contact named above, Carol Henn, Mallory Barg Bulman, John P. Stradling, and Farahnaaz H. Khakoo made significant contributions to this report. Barbara D. Bovbjerg, Tamara E. Cross, Lara Lee Laufer, Ramona L. Burton, Matthew J. Saradjian, Patrick G. Bernard, Michael R. Volpe, Adam Vodraska, Andrew J. Stephens, Richard S. Krashevski, Gregory H. Wilmoth, Donald R. Neff, William T. Woods, and Ruth DeVan also provided key assistance.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548