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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 18, 2005

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 19, 2005, at 9:00 a.m., Eastern Time. The meeting was open to the public at the Board's offices at 1250 H Street, NW, Washington, DC 2005. In attendance were Thomas A. Fink of Alaska, member; Gordon J. Whiting of New York, member (by telephone); Alejandro M. Sanchez of Florida, member; Terrence A. Duffy of Illinois, member (by telephone); Gary A. Amelio, Executive Director; Elizabeth S. Woodruff, Secretary and General Counsel; David L. Black, Director, Accounting; Susan L. Smith, Acting Deputy Director, Administration; Lawrence E. Stiffler, Director, Automated Systems; Pamela-Jeanne Moran, Director, Benefits Services; Thomas J. Trabucco, Director, External Affairs; and James B. Petrick, Director, Investments. Also in attendance was a representative of the Department of Labor; representatives from the Department of Defense; and representatives of Deloitte & Touche.

1. Approval of the minutes of the March 21, 2005, Board member meeting.

Mr. Saul entertained a motion for approval of the minutes of the open portion of the March 21, 2005, Board member meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the open portion of the Board member meeting held on March 21, 2005, be approved as amended.

2. Thrift Savings Plan activity report by the Executive Director.

a. 2005 Board member meeting calendar.

Mr. Amelio advised the Board members that the May Board meeting would include presentations from Barclays Global Investors, the investment manager of four of the TSP's funds, and Metropolitan Life Insurance Company, the TSP's annuity pro-

vider. The June meeting is scheduled to take place in Pittsburgh at the back-up data center. The July and August meetings will be telephonic.

b. FRTIB communications awards.

Mr. Amelio advised the Board members that the Agency's Communications staff had recently been presented with two awards for excellence in communications. The Agency won a bronze medal in the Mercury 2004 Excellence Awards for the "Managing Your Account" brochure. Also, it won an honorable mention for the brochure "Making the Right Move" from the Communications Awards.

c. FRTIB awards to Department of Defense personnel.

Mr. Amelio presented awards to Charles F. Witschonke, Deputy Director of Compensation, Office of the Assistant Secretary, Department of Defense, and to LTC Janet H. Fenton, Esq., Executive Director, Armed Forces Tax Counsel, Office of the Assistant Secretary, Department of Defense, for their work in increasing the visibility of the Thrift Savings Plan among uniformed services participants. During the three years uniformed service members have been able to join the TSP, participation has grown to 477,915 participants, or 20.3% of those eligible.

d. Travel insurance.

The Board members continued a discussion begun at their March 21st meeting regarding the advisability of purchasing business travel accident insurance and workers' compensation insurance for the Board members. Elizabeth S. Woodruff, General Counsel, explained that benefits provided to regular employees were based upon their full-time salaries and, thus, were adequate; however, because Board members were only part-time, the same coverage was inadequate for Board members. She explained that the cost of such insurance was a proper expenditure from the Thrift Savings Fund, since it was not an appropriated fund. General government experience did not provide any guidance because so few agencies had a similar organization; of the ones that were contacted by the Office of General Counsel, all said the issue had never been raised. Susan L. Smith, Acting Deputy Director, Administrative Services, explained that both the travel accident insurance and workers' compensation insurance could be obtained for the five Board members for approximately $2,000 a year.

At the end of the discussion, the following motion was made, seconded, and adopted by a majority of the members:

> MOTION: That the Agency obtain business travel accident and workers' compensation insurance for the Board members.

e. Legislation.

Thomas J. Trabucco, Director, External Affairs, advised the Board members that the House Subcommittee on the Federal Work Force and Agency Organization was holding a hearing on Tuesday, April 19th, on a bill that would add a Real Estate Investment Trust (REIT) fund to the TSP. Mr. Saul and Mr. Amelio are scheduled to testify and to oppose the addition of such an investment fund.

Elizabeth Woodruff discussed her analysis of the responsibility for Plan investments imposed on the Board member fiduciaries by FERSA. Thomas Trabucco described the Board's actions in this area from an historical standpoint. After a discussion, the Board members unanimously agreed that the TSP should oppose the bill.

f. Automated systems report.

Lawrence E. Stiffler, Director, Automated Systems, advised the Board members that the backup data center in Pittsburgh was operational and was undergoing testing. Mr. Fink and Mr. Saul questioned whether a full disaster recovery test had been performed; Mr. Stiffler explained that such a test was planned within the next two months after all other testing had been completed.

Mr. Stiffler also advised the Board members that the participant statements for the first quarter of 2005 were posted on the TSP web site last week and that mailing of the paper statements would begin this week. Mr. Saul expressed his pleasure that the statements this quarter were being produced within weeks after the end of the quarter.

3. 2004 Annual Financial Audit.

Melissa Krause and Steven Swirnow of Deloitte & Touche LLP presented the results of their firm's annual financial audit

of the Thrift Savings Fund for calendar year 2004. Copies of the audit report, Deloitte & Touche's presentation, and the Agency's response to the report are attached to these minutes.

Ms. Krause explained that Deloitte & Touche reviewed the internal controls and regulatory compliance of the FRTIB and issued an unqualified opinion that the Fund had fairly presented its financial statements in accordance with auditing standards generally accepted in the United States. Ms. Krause noted that this was the 18th year in a row that an unqualified opinion had been issued for the Fund and she complimented David Black, Director, Accounting, and his staff on this accomplishment.

Ms. Krause specifically addressed the questions raised by Mr. Fink concerning internal controls over non-contributing accounts. She stated that Deloitte & Touche performed testing on all accounts, both contributing and non-contributing, and determined that Board staff has vigorous controls in place, on all accounts.

Mr. Saul questioned the extent to which the audit included reviews of controls at the Agency's contractors, such as Spherix and Barclays. Ms. Krause explained that Deloitte & Touche does not audit the firm's internal controls per se but does review independent studies to determine whether they are appropriate for audit reliance. Mr. Saul expressed his opinion that the Board should engage a more detailed study of its major contractors. Ms. Krause advised that Deloitte & Touche does review the scope of the Agency's oversight and monitoring of its contractors and service providers.

Mr. Sanchez followed up on Mr. Saul's statement by asking whether Ms. Krause believed that the audit was sufficiently detailed to determine why certain practices were in place, not only whether the practices in place were being followed. Ms. Krause explained that this was not the purpose of their engagement.

Mr. Fink asked whether the recommendations by Deloitte & Touche included a recommendation that the Agency perform audits in areas not audited by the Department of Labor. Ms. Krause explained that this was not the purpose of Deloitte & Touche's recommendations. Instead, she explained that the audit team was concerned that there was a lack of consistency in reviewing agency activity as it concerns making contributions to the TSP. She explained that Deloitte & Touche had recommended that the Agency request the Office of Management and Budget to

include such a review in its advice to agency Inspectors General. In addition, the audit team recommended that the Agency consider the feasibility and utility of having an internal audit process, similar to those found in large public and private organizations. In response to Mr. Fink's question how much additional staff this recommendation would require, Ms. Krause explained that it was possible to have an internal audit team with existing staff, as long as the review is performed by someone other than the person who performs the work. Mr. Black advised that he would prepare a recommendation regarding an internal audit process for the Executive Director's review and presentation to the Board.

Mr. Fink also asked for an explanation of the increase in administrative expenses shown on the financial statement, when it was his understanding that administrative expenses were going down. Mr. Black explained that this was a difference between accrued expenses and actual expenses - the expenses shown on the financial statement were accrued expenses which included past purchases which had been capitalized and were now being written off.

4. Investment policy review.

By memorandum dated April 8, 2005, Mr. Amelio provided the Board members with a report on the performance of the G, C, S, and I Funds during the first quarter of 2005. At Mr. Amelio's request, James B. Petrick, Director, Investments, briefed the Board members on the Funds' performance, including Barclays' fourth quarter 2004 proxy voting report.

After this discussion, the members made, seconded, and adopted the following resolution by unanimous vote;

RESOLUTION

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 et seq.) provides that the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f)(1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and

investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund the Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund; and

WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Common Stock Index Investment Fund, the Fixed Income Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

5. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting for a discussion of procurement and internal personnel matters. Present during the closed portion of the meeting concerning procurement were the Board members, Mr. Amelio, Ms. Woodruff, Ms. Smith, and Mr. Petrick. Present during the closed portion of the meeting concerning personnel matters were the Board members, Mr. Amelio, Ms. Woodruff, and Ms. Smith.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Mr. Saul adjourned the meeting at 12:30 p.m.

MOTION: That this meeting be adjourned.

Elizabeth S. Woodruff
Secretary

NOTE: Ace-Federal Reporters, Inc., made a verbatim transcript of this meeting.