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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

June 20, 2006

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on June 20, 2006, at 9:05 a.m., Eastern Daylight Time. The meeting was open to the public at the Board's offices at 1250 H Street, N.W., Washington, D.C. In attendance were Thomas A. Fink of Alaska, member; Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member (by telephone); Terrence A. Duffy of Illinois, member (by telephone); Gary A. Amelio, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Mark A. Hagerty, Chief Information Officer; Gregory T. Long, Director of Product Development; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; and Thomas J. Trabucco, Director, External Affairs. Melissa Krause, of Deloitte and Touche, LLP, was also in attendance.

1. Approval of the minutes of the May 16, 2006 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the May 16, 2006 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 May 16, 2006, be approved.

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

a. Transfer of Work to SI.

Mr. Amelio reported that the transition of work from the National Finance Center (NFC) to SI International was complete and had been even more successful than anticipated. During the transition, NFC personnel had positive attitudes and were very helpful. Mr. Amelio recognized the contributions of several NFC employees by awarding them a TSP medallion.

Chairman Saul thanked Penny Moran, Jim Petrick, and Mark Hagerty for their excellent work during the transition. He noted that much hard work had been involved and remarked that such effort will provide the participants with a better plan.

b. Legislative Update.

Mr. Trabucco reported that, since the last Board member meeting, Congress had taken no action regarding legislation that would affect the TSP. Mr. Saul asked for an update on the Army's pilot program to allow matching contributions for soldiers in particular military occupations. He was told that the first contributions would occur in July and that the pilot would run through 2008. Agency staff will update the Board regularly on this pilot program. Mr. Sanchez asked how many members of Congress were co-sponsoring the bill to add a REIT fund to the TSP and was told approximately 165.

c. Uniformed Services.

Mr. Amelio reported that he had a very productive meeting with Michael Rhodes, the Marine Corps' Deputy Commandant for Manpower. The Agency may develop a brochure explaining the TSP that the uniformed services can give to the parents of potential recruits. This may both assist the uniformed services with recruiting and increase TSP participation among new service members.

d. Monthly Investment Activity Report.

By memorandum dated June 9, 2006 (attached), Ms. Ray provided the Board members with a report on the performance of the G, F, C, S, and I Funds during May 2006.

Mr. Sanchez inquired regarding participation rates among members of the uniformed services. He was told that active duty participation increased .2%, to 14.3% in the Army; .2% to 47.0% in the Navy; .4% to 32.4% in the Marine Corps; .3% to 30.0% in the Air Force; and .1% to 27.2% in the Coast Guard. The Public Health Service is participating at a 64.9% rate and the National Oceanic & Atmospheric Association is participating at a 74.5% rate.

Mr. Duffy asked whether members of the uniformed services were primarily investing in equity funds. He was told that we don't have that data yet. However, because most of the new money coming into the TSP from members of the uniformed ser-

vices is going into the long-term L Funds, it is likely that members of the uniformed services are investing most heavily in equity funds.

Mr. Amelio reported that the number of outstanding TSP loans continues to decline. He added that he expected that the charge to plan participants for administrative expenses would be 4 basis points for the year. We now have 3.608 million participants.

Mr. Whiting asked how many TSP participants have TSP loans and was told approximately 19 percent of participants have loans and about 700,000 loans are outstanding (some participants have more than one loan). Chairman Saul asked whether the Agency expects the number of loans to remain constant. Mr. Amelio replied that we might see small decreases but it will likely stay about the same because the percentage of TSP participants with loans is now about the same as in other plans. Chairman Saul asked how many TSP loans were outstanding when Mr. Amelio became Executive Director and was told approximately one million.

3. New Business.

a. Meetings with Foreign Officials.

Mr. Amelio reported that representatives from the governments of the Great Britain, Brazil, and Singapore had visited the Agency. Representatives from France will visit the Agency tomorrow. The representatives are seeking information on how the Agency is structured and how it manages the plan. All have been very impressed. They frequently comment that they would prefer that the Agency more actively manage the plan, but are told that you can't have active management and an administrative expense charge of only four basis points.

b. Media Attention on Information Security.

Mr. Amelio reported that the media has devoted considerable attention to information security. He added that he has asked Mr. Hagerty to pay special attention to protecting TSP information. In response, Mr. Hagerty has designated a member of his staff to focus on security full-time and has developed an excellent security plan.

Mr. Hagerty reported that when the Veterans Administration announced that it had lost a laptop computer con-

taining sensitive data, he was attending a conference on identity theft. He also noted that he was the only representative from a government agency at the conference and left the conference confident that security at the TSP was state-of-the-art. Nevertheless, security will always be a fluid environment, and we will need to continually update our program to stay one-step ahead of the bad guys. Agency employees have developed a good relationship with the Secret Service and participate on its Regions Electronic Crimes Task Force. The Agency will also move from using social security numbers to account numbers so that if participant data is ever compromised, the compromise will not include social security numbers.

Chairman Saul commented that the Board is very concerned about security and wants to ensure Mr. Hagerty has all the resources he needs to protect the plan. Mr. Hagerty responded that Mr. Amelio already informed him he can have every resource he needs to support his efforts.

Mr. Fink then asked whether the Agency can identify suspicious TSP transactions in a manner similar to credit card companies. Ms. Moran replied that the Agency monitors transactions and stops transactions from suspicious IP addresses until the transaction is validated. If a participant reports that he or she did not initiate a particular transaction we can track the transaction back to the computer that was used to initiate it. Ms. Moran has dedicated a member of her staff to working on fraud allegations and that staff member also obtains the cooperation of the Secret Service in looking into such allegations. Mr. Sanchez commented that the Florida Bankers Association, 22 states, and various law enforcement agencies use Fraud-Net to alert others when internet fraud occurs. Since a scheme that occurs in one area is often repeated elsewhere, these alerts allow users of this site to protect against a reported scheme. He added that there is no charge to use Fraud-Net and asked whether Mr. Hagerty would be interested in having access to it. Mr. Hagerty replied that he would, and Mr. Sanchez said that he would ensure that access was granted to Mr. Hagerty.

c. Calendar.

The Board voted to set the 2007 Board meetings on the third Monday of every month except, when Monday is a Federal holiday or Sunday is a holiday or Mother's/Father's day, the meeting will take place on the following Tuesday. The calendar is as follows:

Tuesday, January 16th (January 15th is MLK Day)

Tuesday, February 20th (February 19th is Washington's Birthday) (telephonic)

Monday, March 19th

Monday, April 16th

Monday, May 21st

Tuesday, June 19th (June 17th is Father's Day)

Monday, July 16th (telephonic)

Monday, August 20th (telephonic)

Monday, September 17th

Monday, October 15th

Monday, November 19th

Monday, December 17th (telephonic)

d. Controls.

By powerpoint presentation (attached), Mr. Petrick provided the Board members with a report on the Agency's plans for fulfilling FRTIB responsibilities for Internal Control under OMB Circular A-123. He commented that the Agency has long believed it must comply with the OMB Circular but that its Appendix A applied only to CFO organizations.

Mr. Whiting asked how much more it would cost the Agency to comply with Appendix A and was told that the real costs would come from hiring outside auditors to perform independent audits. Chairman Saul asked whether Deloitte and Touche was already performing this audit function. Melissa Kraus from Deloitte and Touche responded that, although they looked at internal controls as part of their audit, they were not doing enough to provide a report on these internal controls. Mr. Whiting asked how much more time it would take to complete such an audit. Ms. Krause responded that the Agency should first do its own internal audit and then ask the auditor to validate the findings.

Mr. Whiting asked if we could impose even stricter requirements on vendors. Mr. Petrick explained that the control plan would include vendors and would identify where the risks are and what controls are needed. The Agency would still rely on the vendor's SAS 70 for its financial audit.

Ms. Krause commented that this robust discussion was very indicative of how the Agency's control plan will develop. At the conclusion of the report the Board members commented that it was very well done and struck a good balance between doing what is necessary but at a reasonable expense.

e. Lost Participants.

Mr. Petrick then specifically addressed control objective B.8, "Lost Participants." The issue with lost participants is determining the risk and how much money we want to spend to address it. Lost participants are most commonly identified when they reach age 70 ½ --at the time of mandatory distribution from the TSP. We notify all participants three times when they must begin accepting distributions from the TSP. If they do not respond to that notice we suspend earnings and move the account to the G Fund. We then notify those who do not contact us by certified mail. They or their heirs can reclaim the account at any time. Mr. Whiting asked about participants who leave Federal service at, for example age 40. He was told that they may leave their money in the TSP and that it will continue to grow in accordance with their investment election. At one time we reallocated these accounts to other participants but that process was discontinued in 2003. Even when we reallocated the account, the account could still be reclaimed by the participant or by the participant's heirs. Mr. Sanchez commented that we shouldn't abandon accounts too soon and that he wasn't sure that we should suspend earnings. His concern was for the accounts of senior citizens who may not inform their children that they have a TSP account. Mr. Amelio pointed out that, as it concerns abandoned accounts, the TSP is more generous than private plans because the account can always be reclaimed. In private plans, abandoned accounts escheat to the state.

Mr. Fink stated that he was concerned about the 723,000 accounts that showed no activity. He's worried that a third party might wrongfully access the account and steal the funds. Mr. Sanchez noted that of those 723,000, he was particularly concerned about those who were retired. Mr. Petrick ex-

plained that the control plan would address protecting these accounts.

Chairman Saul called for further discussion of the Agency policy regarding lost participants age 70 ½ or older. He directed Mr. Amelio to study the matter and to bring it up for discussion at a future Board meeting.

f. Miscellaneous Matters.

Mr. Amelio provided the Board members with an update on L Fund participation rates (nearing 8 percent) and with related communication materials that he praised as world class.

4. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting for a discussion of internal procurement matters and personnel matters.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 11:59 a.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Secretary

Attachments

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

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

June 9, 2006

MEMORANDUM FOR THE EXECUTIVE DIRECTOR

FROM: TRACEY RAY
CHIEF INVESTMENT OFFICER

SUBJECT: May 2006 Performance Review - G, F, C, S, I, and L Funds

INTRODUCTION

This report reviews key aspects of the investment performance of the G, F, C, S, I, and L Funds through May 2006: investment manager performance and tracking error, trading costs, TSP fund performance, and L Fund participation.

TRACKING ERROR - BGI Funds

Monthly Tracking Error

Fund	% BGI FUND Performance	% Index Performance	Tracking Error
Fixed Income	-0.11	-0.11	0.00
Large Cap	-2.88	-2.88	0.00
Small Cap	-4.32	-4.32	0.00
International	**-3.82**	**-3.88**	**0.06**

Year to Date Tracking Error

Fund	% BGI FUND Performance	% Index Performance	Tracking Error
Fixed Income	-0.91	-0.93	0.02
Large Cap	2.58	2.57	0.01
Small Cap	5.28	5.23	0.05
International	**10.27**	**10.17**	**0.10**

During May, the **Barclays EAFE Equity Index Fund E** outperformed the EAFE Index return by 6 basis points. Year-to-date, **Barclays EAFE Equity Index Fund E** has outperformed the EAFE Index return by 10 basis points.

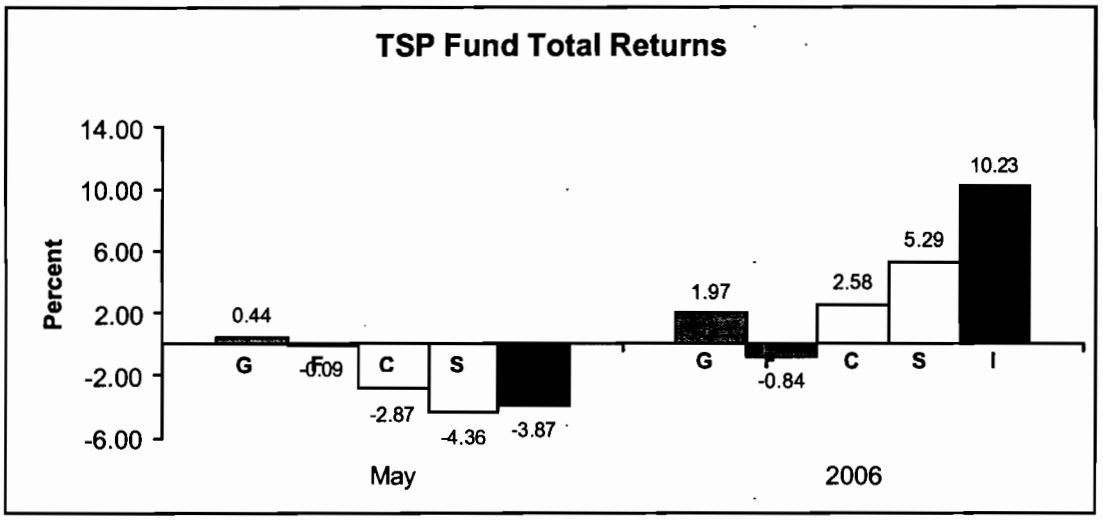
TRADING COSTS

Trading costs for the month of May were minimal, with the exception of 7.7 basis points in the I Fund. I Fund trading costs in May were slightly more than the year-to-date average cost through April of 6.5 basis points.

	DOLLAR AMOUNT TRADED	TRADING COSTS	
		$	Basis Points
F Fund			
May 2006	199,077,501	-1,422	-0.1
Year-to-date	943,777,542	74,128	0.8
C Fund			
May 2006	580,707,920	-50,611	-0.9
Year-to-date	3,326,222,094	138,971	0.4
S Fund			
May 2006	545,923,535	-238,542	-4.4
Year-to-date	2,573,471,755	253,092	1.0
I Fund			
May 2006	1,886,412,037	1,455,607	7.7
Year-to-date	5,377,103,050	3,721,332	6.9

PERFORMANCE OF TSP FUNDS

The chart below shows the G, F, C, S, and I Fund net rates of return for May 2006 and the year.



The table below compares the net rates of return for the F, C, S, and I Funds to the returns of the corresponding Barclays funds.

May 2006

Fund	TSP	Barclays	Difference
Fixed Income	-0.09	-0.11	.02
Large Cap	-2.87	-2.88	.01
Small Cap	-4.36	-4.32	-.04
International	-3.87	-3.82	-.05

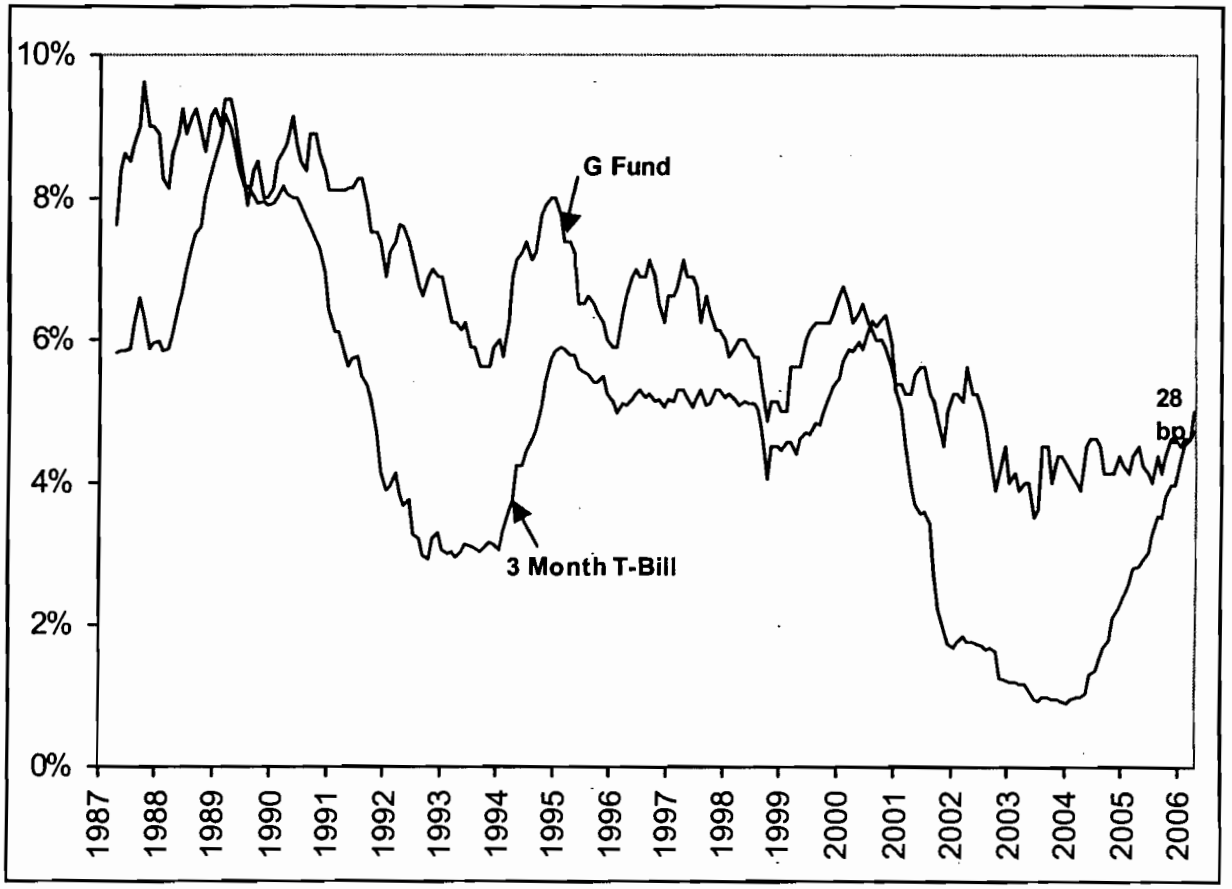
Year to Date

Fund	TSP	Barclays	Difference
Fixed Income	-0.84	-0.91	.07
Large Cap	2.58	2.58	.00
Small Cap	5.29	5.28	.01
International	10.23	10.27	-.04

The TSP Funds have closely tracked the Barclays Funds for the month and year to date.

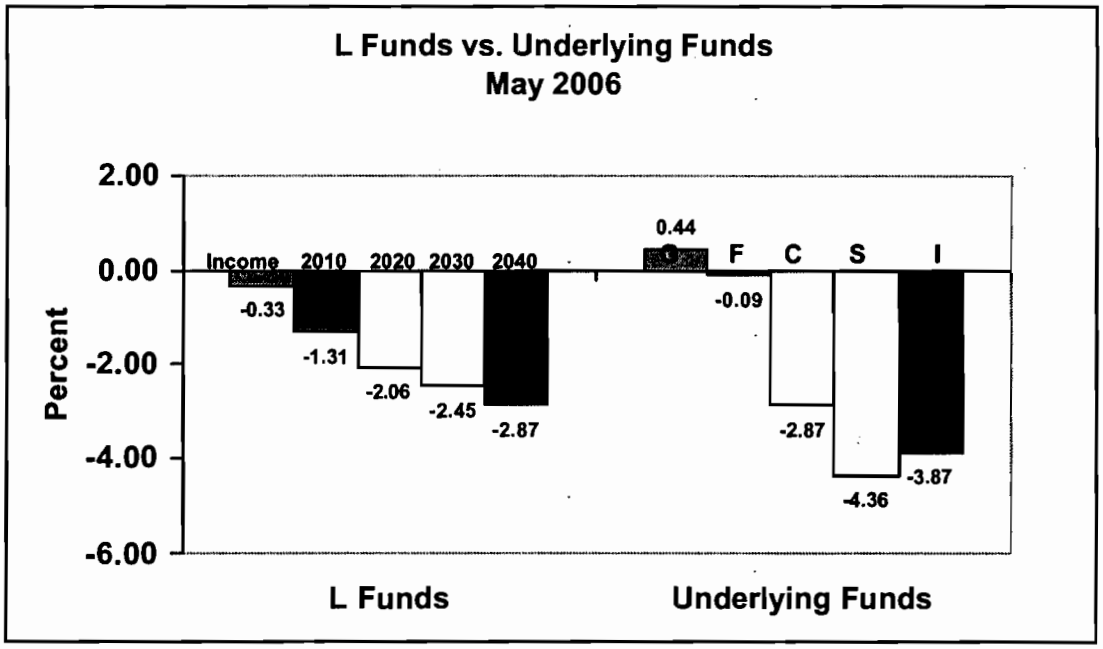
G Fund

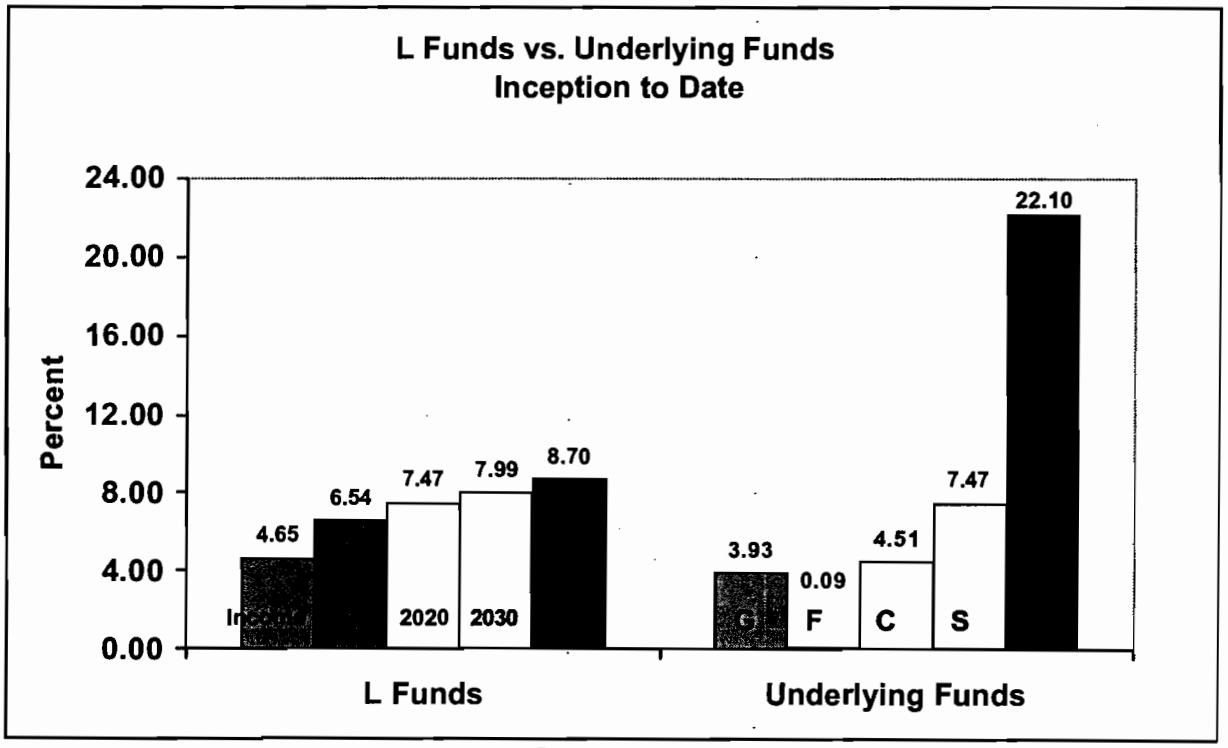
The gross G Fund return was .44% in May. The May 2006 nominal statutory G Fund interest rate (expressed on a per-annum basis) was 5.125%. The spread between the yields on 3 month Treasury Bills and the G Fund was unchanged at 28 basis points.



L Funds

The net rates of return for the L Funds are shown below along with comparable returns for the G, F, C, S, and I Funds. The bulk of our participants' funds are held in the G and C Funds. **Since inception, all of the L Funds have outperformed the G and C funds. The Income Fund has outperformed the G Fund by 72 basis points.**





THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY

Attachment 1 provides a summary of TSP investment activity, participation rates, and monthly returns in the G, F, C, S, I, and L Funds.

- CSRS and FERS employees still have 6% of their account balances allocated to L Funds. Uniformed Services employees now have 8% of the value of their accounts allocated to L Funds. It appears as if funding is coming primarily from the G and C Funds. (p.7)
- 8.6% (or $143 million) of monthly TSP contributions were allocated to L Funds compared to 8.7% last month. (p.8)
- In 10 months, $10.0 billion has been transferred from the core funds into the L Funds. Monthly interfund transfers into the L Funds declined to $253 million in May. (p.8)
- Participation in the L Funds increased across all employee populations to 9% of FERS and 7% of CSRS, and 11% of Uniformed Services. (p.9)
- The most popular L Funds by retirement group remain 2020 for FERS, 2010 for CSRS, and 2030 for Uniformed Services. (p.9)
- The number of participants in the L Funds rose 4% to 317,704 from April's 304,888. The total balance in L Funds rose approximately 1% to $11.3 billion from $11.2 billion. (p.10)

Attachment

THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY

Allocation of Account Balances

	Participants with Balances in Funds other than the G Fund						Allocation of Account Balances (G/F/C/S/I/L Fund)		
Month end	FERS (000s)	%	CSRS (000s)	%	Uniformed Services (000s)	%	FERS (%) (G / F / C / S / I / L)	CSRS (%) (G / F / C / S / I / L)	Uniformed Services (%) (G / F / C / S / I / L)
1/31/2005	1,437	67%	551	77%	226	40%	38 / 7 / 44 / 6 / 5 / -	43 / 6 / 42 / 5 / 4 / -	49 / 6 / 23 / 14 / 8 / -
2/28/2005	1,442	67%	550	77%	234	40%	37 / 7 / 43 / 7 / 6 / -	42 / 6 / 41 / 6 / 5 / -	48 / 6 / 23 / 14 / 9 / -
3/31/2005	1,444	67%	546	77%	240	41%	38 / 7 / 43 / 6 / 6 / -	43 / 6 / 41 / 5 / 5 / -	49 / 6 / 22 / 14 / 9 / -
4/30/2005	1,443	67%	540	77%	244	42%	39 / 7 / 42 / 6 / 6 / -	44 / 6 / 40 / 5 / 5 / -	49 / 6 / 22 / 14 / 9 / -
5/31/2005	1,448	67%	538	77%	249	42%	39 / 7 / 42 / 7 / 5 / -	44 / 6 / 40 / 5 / 5 / -	48 / 6 / 23 / 14 / 9 / -
6/30/2005	1,451	67%	536	77%	252	42%	39 / 7 / 42 / 7 / 5 / -	44 / 6 / 40 / 5 / 5 / -	48 / 6 / 22 / 15 / 9 / -
7/31/2005	1,460	66%	536	77%	257	42%	38 / 7 / 42 / 8 / 5 / -	43 / 6 / 41 / 6 / 4 / -	47 / 6 / 22 / 16 / 9 / -
8/31/2005	1,467	67%	534	77%	265	43%	38 / 7 / 40 / 7 / 6 / 2	42 / 6 / 39 / 6 / 5 / 2	47 / 5 / 22 / 15 / 9 / 2
9/30/2005	1,474	67%	534	77%	272	43%	37 / 6 / 41 / 7 / 6 / 3	42 / 6 / 39 / 6 / 5 / 2	45 / 5 / 22 / 15 / 10 / 3
10/31/2005	1,479	67%	533	77%	277	43%	38 / 6 / 40 / 7 / 6 / 3	42 / 6 / 38 / 6 / 5 / 3	45 / 5 / 21 / 15 / 10 / 4
11/30/2005	1,490	67%	533	77%	282	43%	36 / 6 / 40 / 8 / 6 / 4	41 / 6 / 38 / 6 / 5 / 4	45 / 5 / 21 / 15 / 10 / 4
12/31/2005	1,497	67%	532	77%	287	43%	35 / 6 / 39 / 8 / 7 / 5	40 / 6 / 38 / 6 / 6 / 4	44 / 5 / 21 / 15 / 10 / 5
1/31/2006	1,506	67%	531	78%	293	44%	35 / 6 / 38 / 8 / 8 / 5	40 / 5 / 37 / 7 / 6 / 5	43 / 5 / 21 / 15 / 11 / 5
2/28/2006	1,515	67%	529	78%	302	45%	34 / 6 / 38 / 8 / 8 / 6	39 / 5 / 37 / 7 / 7 / 5	43 / 4 / 20 / 15 / 11 / 7
3/31/2006	1,520	68%	528	78%	309	45%	35 / 5 / 38 / 8 / 8 / 6	39 / 5 / 36 / 7 / 7 / 6	42 / 4 / 20 / 16 / 11 / 7
4/30/2006	1,528	68%	527	78%	316	46%	34 / 5 / 37 / 9 / 9 / 6	39 / 5 / 36 / 7 / 8 / 6	41 / 4 / 20 / 15 / 12 / 8
5/31/2006	1,525	68%	521	77%	321	46%	35 / 5 / 37 / 8 / 9 / 6	40 / 5 / 35 / 7 / 7 / 6	41 / 4 / 20 / 15 / 12 / 8

THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY
Contributions and Interfund Transfers

	Monthly TSP Contributions ($ Millions)							Interfund Transfer Activity ($ Millions)						
Month end	G Fund	F Fund	C Fund	S Fund	I Fund	L Funds	Total	G Fund ($Mil)	F Fund ($Mil)	C Fund ($Mil)	S Fund ($Mil)	I Fund ($Mil)	L Funds ($Mil)	# of ITs
1/31/2005	537	96	581	122	90		1,426	274	12	(437)	(90)	242		133,781
2/28/2005	515	90	539	119	92		1,355	(80)	(56)	(327)	23	440		118,195
3/31/2005	601	106	644	145	118		1,613	345	(164)	(519)	(105)	444		153,888
4/30/2005	528	90	541	123	103		1,385	788	30	(504)	(181)	(133)		138,842
5/31/2005	524	89	534	121	102		1,370	93	40	(177)	127	(83)		121,692
6/30/2005	615	105	623	142	117		1,602	228	(15)	(377)	354	(189)		121,318
7/31/2005	583	99	581	144	113		1,521	(283)	(61)	(266)	714	(105)		128,495
8/31/2005	560	94	567	144	111	27	1,503	(620)	(196)	(1,932)	(444)	68	3,124	217,418
9/30/2005	559	93	571	146	116	49	1,534	(160)	(179)	(1,014)	(205)	606	953	150,844
10/31/2005	510	83	501	130	108	58	1,390	(462)	(223)	(762)	(43)	260	1,230	164,470
11/30/2005	558	87	533	139	117	80	1,514	(925)	(237)	(585)	339	67	1,341	150,510
12/31/2005	562	88	541	147	125	97	1,560	(366)	(109)	(703)	27	359	792	140,242
1/31/2006	599	94	599	167	150	125	1,734	(368)	(158)	(1,223)	(15)	753	1,011	205,166
2/28/2006	524	80	510	149	138	117	1,518	(448)	(174)	(707)	300	467	562	149,164
3/31/2006	533	80	512	156	146	131	1,558	(111)	(113)	(684)	103	375	430	156,071
4/30/2006	515	77	497	155	148	133	1,525	(296)	(87)	(815)	244	676	278	158,329
5/31/2006	571	83	531	167	168	143	1,663	1,096	(108)	(839)	(462)	60	253	247,508

THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY

L Fund Participation Rates and Balance Distribution

	Participants with Balances in the L Funds						Allocation of L Fund Balances		
Month end	FERS (000s)	FERS %	CSRS (000s)	CSRS %	Uniformed Services (000s)	Uniformed Services %	FERS (%) Inc/2010/2020/2030/2040	CSRS (%) Inc/2010/2020/2030/2040	Uniformed Services (%) Inc/2010/2020/2030/2040
1/31/2005	-	-	-	-	-	-	-	-	-
2/28/2005	-	-	-	-	-	-	-	-	-
3/31/2005	-	-	-	-	-	-	-	-	-
4/30/2005	-	-	-	-	-	-	-	-	-
5/31/2005	-	-	-	-	-	-	-	-	-
6/30/2005	-	-	-	-	-	-	-	-	-
7/31/2005	-	-	-	-	-	-	-	-	-
8/31/2005	54	2%	13	2%	14	2%	6 / 26 / 41 / 19 / 8	14 / 50 / 29 / 4 / 3	2 / 8 / 23 / 36 / 31
9/30/2005	74	3%	17	2%	26	4%	6 / 25 / 42 / 19 / 8	14 / 50 / 29 / 4 / 3	2 / 8 / 24 / 35 / 31
10/31/2005	96	4%	23	3%	32	5%	6 / 24 / 42 / 19 / 9	14 / 50 / 29 / 4 / 3	2 / 8 / 24 / 35 / 31
11/30/2005	121	5%	29	4%	38	6%	6 / 24 / 42 / 19 / 9	13 / 51 / 29 / 4 / 3	2 / 8 / 23 / 36 / 31
12/31/2005	138	6%	33	5%	44	7%	6 / 24 / 41 / 20 / 9	13 / 50 / 30 / 4 / 3	2 / 8 / 23 / 36 / 31
1/31/2006	159	7%	37	5%	49	7%	5 / 23 / 42 / 20 / 10	13 / 48 / 30 / 5 / 4	2 / 8 / 24 / 35 / 31
2/28/2006	172	8%	40	6%	58	9%	5 / 23 / 41 / 21 / 10	12 / 49 / 30 / 5 / 4	2 / 8 / 24 / 35 / 31
3/31/2006	183	8%	42	6%	66	10%	5 / 22 / 42 / 21 / 10	12 / 48 / 31 / 5 / 4	2 / 8 / 24 / 35 / 31
4/30/2006	191	8%	43	6%	71	10%	5 / 22 / 42 / 21 / 10	11 / 49 / 31 / 5 / 4	2 / 7 / 24 / 36 / 31
5/31/2006	199	9%	44	7%	75	11%	5 / 22 / 41 / 21 / 11	11 / 48 / 31 / 5 / 5	2 / 8 / 24 / 35 / 31

THRIFT SAVINGS PLAN MONTHLY INVESTMENT ACTIVITY

L Fund Investment Balances and Number of Participants

	L Fund Investment Balances						Number of Participant Accounts with L Fund Balances					
Month end	Income ($Mil)	2010 ($Mil)	2020 ($Mil)	2030 ($Mil)	2040 ($Mil)	Total ($Mil)	Income	2010	2020	2030	2040	Any L Fund
1/31/2005	-	-	-	-	-	-	-	-	-	-	-	-
2/28/2005	-	-	-	-	-	-	-	-	-	-	-	-
3/31/2005	-	-	-	-	-	-	-	-	-	-	-	-
4/30/2005	-	-	-	-	-	-	-	-	-	-	-	-
5/31/2005	-	-	-	-	-	-	-	-	-	-	-	-
6/30/2005	-	-	-	-	-	-	-	-	-	-	-	-
7/31/2005	-	-	-	-	-	-	-	-	-	-	-	-
8/31/2005	253	934	1,205	519	244	3,155	6,198	16,680	23,601	19,155	17,425	81,507
9/30/2005	316	1,206	1,597	697	335	4,151	8,992	24,105	34,583	28,710	26,501	116,264
10/31/2005	400	1,556	2,090	915	430	5,391	11,792	32,043	45,947	37,685	34,494	150,309
11/30/2005	489	1,988	2,713	1,186	563	6,939	14,556	40,559	58,501	47,424	43,075	188,155
12/31/2005	542	2,235	3,092	1,362	664	7,895	16,915	46,517	67,777	55,164	50,848	214,779
1/31/2006	601	2,540	3,624	1,637	840	9,242	19,010	52,724	77,896	64,357	59,992	245,922
2/28/2006	625	2,681	3,883	1,797	932	9,918	20,732	57,305	86,042	72,500	68,296	270,553
3/31/2006	645	2,835	4,150	1,954	1,034	10,618	22,342	61,132	92,466	79,150	75,516	290,311
4/30/2006	661	2,937	4,368	2,081	1,117	11,164	23,466	63,779	97,479	84,242	81,169	304,888
5/31/2006	673	2,964	4,403	2,122	1,147	11,309	24,545	66,088	101,427	88,672	86,226	317,704

Plan for Fulfilling FRTIB Responsibilities for Internal Control under OMB Circular A-123

History of TSP and A-123

- ✓ Circular A-123 issued by OMB to implement Section 2 of the Federal Managers Financial Integrity Act of 1982 (FMFIA)
- ✓ In 1988, Agency General Counsel advised that FMFIA and thus A-123 applies to Agency
- ✓ At that time, Executive Director determined the Department of Labor audits and annual financial audit met the requirements
- ✓ In 2004, in the wake of Sarbanes-Oxley, OMB revised A-123, prescribing stronger management processes to assess internal controls over financial reporting
- ✓ Under A-123, Executive branch agencies must have and execute an internal control plan
- ✓ Last year, the Agency's General Counsel reaffirmed that FMFIA, and thus Circular A-123, applies to Agency

Proposed Internal Control Plan

- PART I: Legal and Policy Framework
- PART II: Control Plan
- PART III: Audit and Review of Controls
- PART IV: Schedule

PART I: Legal and Policy Framework

- ✓ FMFIA requires each executive agency to establish administrative and financial controls to ensure:
  - Obligations and costs comply with applicable laws and regulations
  - Assets are safeguarded against waste, fraud, and abuse
  - Revenues and expenditures are properly accounted for

A-123's Requirements

- ✓ All agencies must develop and execute an internal control plan to achieve the following:
  - Reliable financial reporting
  - Efficient and effective operations
  - Compliance with applicable laws and regulations
- ✓ Head of each agency is required to file an annual assurance statement with OMB to certify adequacy and effectiveness of the plan
- ✓ Appendix A of OMB A-123 imposes more stringent requirements on 24 largest agencies for documentation, monitoring, and reporting of financial controls.
- ✓ Although Appendix A is not applicable to the FRTIB, many expect its more stringent requirements to become the standard for all Federal agencies in the near future

Reasons to Comply with A-123

- ✓ Agency manages over $180 billion in assets, exceeding many federal agencies and mutual funds
- ✓ Positively impacts participant protection and confidence
- ✓ Department of Labor budget constraints have reduced frequency and scope of TSP audits
- ✓ Annual Financial Statement audit does not include audit of internal controls. Lack of documented internal control certification could adversely impact future audits
- ✓ TSP dependence on outside contractors continues to increase. Board and Executive Director have endorsed enhanced controls as a result of this trend
- ✓ TSP auditor recommends the Agency follow the requirements of A-123.

PART II: Control Plan

Step 1: Establish a Senior Assessment Team (SAT)

Step 2: Train Managers

Step 3: Establish high-level control framework for the Agency

Step 4: Develop and document a list of assessable units and identify person in charge of each process

Step 5: Complete a risk assessment for each assessable unit

Step 6: Establish and document appropriate internal controls

Step 7: Review and test controls periodically and establish corrective actions

STEP 1 - Establish a Senior Assessment Team (SAT)

- ✓ Controls are a key responsibility of top management. Managers are responsible to identify critical areas (assessable units) under their purview that need to have controls and to implement those controls.
- ✓ For the FTRIB, it is recommended the SAT consist of the following senior staff members with key responsibilities for financial reporting, operations, and legal compliance:
  - The Director of Finance
  - The Director of Automated Systems
  - The Director of Participant Services
  - The General Counsel
- ✓ The SAT will meet once a month. The Office of Finance will provide a quarterly report to the Executive Director about progress on the control plan and other key control issues.

STEP 2 - Train Managers

- ✓ Develop a training plan for Agency managers
- ✓ Training administered to senior and operational managers, including managers of each "assessable unit"
- ✓ Training to be extended to contractor personnel where they have been identified as providing key controls
- ✓ Training to include:
  - Management responsibility for internal control
  - Risk Assessment processes and techniques
  - Identification and establishment of appropriate controls
- ✓ May be able to coordinate with security and ethics training

STEP 3 - Establish High-Level Control Framework

- ✓ A high-level control framework will be developed (Attachment A is a draft of such a framework) following the widely accepted COSO format, which Circular A-123 endorses as the basis for creating an entity-wide control environment
- ✓ Attachment A is organized into the three major areas of control identified by the COSO framework and Circular A-123:
  - Financial statements
  - Operations
  - Regulatory compliance
- ✓ We will also develop documentation keyed to each line of the financial statements, showing how the key components of our financial reporting is controlled
- ✓ Within each of these areas, the framework identifies key Agency control objectives and the relevant financial statement, legal, and regulatory references
- ✓ This is a "top-down" approach designed to avoid the pitfalls and costs of a "bottom-up" approach by focusing on the most relevant agency control objectives. Entity-wide control provides the most efficient and balanced approach
- ✓ The framework will be refined with input from the SAT as key control objectives are considered by Agency managers. Ensures areas of special focus, such as inactive accounts and contractor operations, are addressed

STEP 4 - Develop and Document a List of Assessable Units and Identify Responsible Managers

- ✓ Attachment B is a draft of a master control index for a representative sample of the "assessable units" that support the Agency's control objectives. This unique assessable unit number will serve as the key for documentation of all control processes
- ✓ The SAT will identify for each assessable unit the manager who is responsible for determining if there are appropriate controls over that process
- ✓ For processes managed by outside contractors, the master control index will identify both a responsible Agency manager AND a responsible process owner within the contractor organization
- ✓ The master index will identify the existence and location of relevant process documentation
- ✓ The master index will also document the results of the risk assessment and control identification and testing processes (Steps 5, 6, and 7)

STEP 5 - Complete and Document a Risk Assessment for Each Assessable Unit

- ✓ There is no established format for performing risk assessments but two major factors considered are:
  - Seriousness of the risk (e.g., dollar exposure, consequences of negative publicity)
  - Likelihood of its occurrence
- ✓ Methodology to perform risk assessments will be addressed in training
- ✓ SAT will discuss and agree on risk assessment methods and standardized methodology
- ✓ Emphasis on simplicity and completeness
- ✓ Automated systems processing will leverage current risk assessments and reviews already in place under the Federal Information Systems Management Act (FISMA)
- ✓ All risk assessments will be documented

STEP 6 - Establish and Document Appropriate Internal Controls

- ✓ Identify highest risk processes first and ensure appropriate controls are in place
- ✓ Risk assessment methodology and results will be used to determine the highest risk areas to be addressed
- ✓ As controls are established, they will be properly documented in narrative form, checklists, and flow charts as applicable. Documentation will be referenced to unique assessable unit number on the Master Index
- ✓ Master Index will also track relevant audit recommendations
- ✓ Exploring software programs that will maintain control system and documentation as well as audit tracking

STEP 7 - Review and Test Controls Periodically and Establish Corrective Actions

- ✓ Assessable unit manager will develop a plan to test key controls in line with the SAT guidance
- ✓ Assessable unit manger will maintain the plan, the results of testing the controls, and the corrective action to remedy any weaknesses found in the internal controls
- ✓ Weaknesses will be reported, documented, and referenced on the Master Index
- ✓ The SAT will periodically review of each of the assessable units to monitor the progress of correcting any internal control weaknesses
- ✓ Office of Finance will complete an annual internal review and report to the Executive Director and the Board on the status of internal controls

High-Level Control Framework

A. Financial Activities and Reporting (Primary owners: Director of Participant Services and Director of Finance)

Sample Key Control Objectives:	Reference
A.1. TSP monies received are appropriately accounted for and placed in appropriate accounts.	Statement of Changes, Additions, Contributions
A.2. The TSP does not accept inappropriate funds.	
A.3. TSP Fund investment balances are correct.	Statement of Net Assets, Assets, Investments at fair value.
A.4. TSP share prices are correct.	Statement of Changes, Additions, Investment income
A.5. TSP participants have proper account balances invested in the proper funds at the proper share price.	Note 1, Plan description, Participant accounts
A.6. Money paid out by the TSP for benefits is correct.	Statement of Changes, Deductions, Benefits paid to participants
A.7. Money is not paid out of the TSP due to fraud or error.	
A.8. TSP Administrative expenses are properly accounted for.	Statement of Changes, Deductions, Administrative expenses
A.9. Contractor bills are for work properly performed	
A.10. Fixed assets are properly maintained and accounted for.	Statement of Net Assets, Assets, Fixed Assets

B. Operational activities (Primary owners: Director of Participant Services and Director of Automated Systems)

Sample Key Control Objectives:	Reference
B.1. TSP account information is accurately maintained.	
B.2. TSP participant SSNs and other identifying data are appropriately secured.	
B.3. TSP computer systems are secure.	
B.4. All TSP systems have appropriate backup.	
B.5. TSP call centers provide accurate information.	
B.6. Withdrawal requests are handled appropriately.	
B.7. Loan requests are handled appropriately.	
B.8. Lost participants are identified	
B.9. Participants receive timely and accurate information about their accounts.	
B.10. Contractor work is of acceptable quality.	

C. Regulatory Compliance Activities (Primary owners: General Counsel and Director of Finance)

Sample Key Control Objectives:	Reference
C.1. TSP fiduciaries comply with fiduciary compliance rules.	
C.2. TSP employees comply with government ethics rules.	
C.3. TSP contracts are entered into and administered in accordance with applicable law.	
C.4. TSP human resource policies are appropriate and comply with applicable law.	

Attachment B

TSP Master Control Index

Assessable Unit #	Description	Location of Process Documentation	Process Manager Name	Process Manager Agency/Contractor	Risk Assessment (High/Medium/Low)	Control Review Completed	Control Review Scheduled	Audit Tracker #
A	**A. Financial Reporting**							
A.1	TSP monies received are appropriately accounted for and placed in appropriate accounts.							
A.1.1.	Process contributions through tapes							
A.1.2	Process contributions though Internet							
A.1.3	Process contribution checks							
A.1.4	Process loan payments through FRB							
A.1.5	Process loan payment checks							
A.1.6	Process roll-in checks							
A.1.7	Process Treasury credits							
A.2	TSP Does Not Accept Inappropriate Funds							
A.2.1	Reject inappropriate contributions							
A.3	TSP Fund Investment Balances Are Correct							
A.3.1	Process IFT/CAs submitted by Internet							
A.3.2	Process IFT/CAs submitted by Paper							
A.3.3	Process IFT/CAs submitted by PSR							
A.3.4	Calculate daily share prices							
A.3.5	Calculate daily amounts to be invested with investment manager(s)							
A.3.6	Place daily buy/sell orders with investment manager							
A.3.7	Calculate administrative expenses							
A.3.8	Managers invest TSP funds properly							
A.3.9	Assets are properly held by investment managers							
A.3.10	Ensure fund balances are correct							
A.3.11	Calculate monthly G Fund rate							
A.3.12	Calculate G Fund earnings							
A.4	TSP Share Prices Are Correct							
A.5	TSP participants have proper account balances invested in the proper funds at the proper share prices							
A.6	Money paid out by the TSP to beneficiaries is correct							
A.6.1	Process participant post-separation withdrawal elections							
A.6.2	Process cashouts							
A.6.3	Process hardship withdrawals							
A.6.4	Process age-based withdrawals							
A.6.5	Process internet loan applications.							
A.6.6	Process paper loan applications.							
A.6.7	Process loan applications by PSR							
A.7	Money is not paid out of the TSP due to fraud or error							
A.8	TSP Administrative expenses are properly accounted for							
A.9	Contractor bills are for work properly performed							
A.10	Fixed assets are properly maintained and accounted for							

Attachment B

TSP Master Control Index

Assessable Unit #	Description	Location of Process Documentation	Process Manager		Risk Assessment (High/Medium/Low)	Control Review		Audit Tracker #
			Name	Agency/Contractor		Completed	Scheduled	
B	**Account Maintenance**							
B.1	TSP account information is accurately maintained							
B.1.1	Maintain/change participant address information							
B.1.2	Ensure that participants are not lost							
B.1.3	Maintain correct account balances for participants							
B.1.4	Maintain/change participant name							
B.1.5	Change participant SSN							
B.1.7	Change participant name							
B.1.8	Maintain beneficiary designation							
B.1.9	Process employee status code							
B.1.10	Process separation information							
B.1.11	Process death information							
B.2	TSP participant SSNs and other identifying data are appropriately secured							
B.3	TSP computer systems are secure							
B.4	All TSP systems have appropriate backup							
B.5	TSP call centers provide accurate information							
B.6	Withdrawal requests are handled appropriately							
B.7	Loan requests are handled appropriately							
B.8	Lost participants are identified							
B.9	Participants receive timely and accurate information about their accounts							
B.10	Contractor work is of acceptable quality							
C	**Regulatory Compliance**							
C.1	TSP fiduciaries comply with fiduciary compliance rules							
C.2	TSP employees comply with government ethics rules							
C.3	TSP contracts are entered into and administered in accordance with applicable law							
C.4	TSP human resource policies are appropriate and comply with applicable law							