



MINUTES OF THE MEETING OF THE BOARD MEMBERS

March 28, 2011

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on March 28, 2011, at 10:04 a.m., Eastern 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 Alejandro Sanchez of Florida, member; Michael D. Kennedy of Georgia, member; Dana K. Bilyeu of Nevada, member (by phone); Gregory T. Long, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Mark A. Hagerty, Chief Information Officer; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Renee Wilder, Director, Research and Strategic Planning; Bill Bailey, Department of Labor; Micheal Auerbach, Department of Labor; Heather Flannagan, KPMG; Jim Devaul, KPMG; and Diane Dudley, KPMG.

1. Approval of the minutes of the February 28, 2011 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the February 28, 2011 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting that was held on February 28, 2011, be approved.

2. Communications Awards.

Ms. Moran informed the Board that the communications team earned and accepted two awards given to the Agency for excellence in participant communications and education materials. The trailer for the new website won the Agency the Silver Omni Intermedia Award for outstanding media productions. The Agency was also awarded a second place Pension and Investments Eddy Award for excellence in public defined contribution plan participation education.

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

- a. Monthly Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Ms. Wilder informed the Board members that

the TSP has over 4.4 million participants. The participation rate grew from 84.6% in January to 84.9% in February.

Approximately 97.5% of newly hired civilian Federal employees are participating in the TSP. Ms. Wilder pointed out that 60% of newly hired civilian Federal employees elect to participate in the TSP by affirmative election immediately upon hire, in lieu of being automatically enrolled, or by actively managing their account after being automatically enrolled. This percentage has increased each month since the inception of automatic enrollment.

b. Monthly Investment Performance Report

Ms. Ray reviewed the March 11, 2011 memorandum, entitled "February 2011 Performance Review" (attached). Ms. Ray reported that the S Fund outperformed its underlying index by eight basis points due to the optimization process used by BlackRock. The I Fund outperformed its underlying index by 10 basis points primarily because of the tax effect.

Ms. Ray also reported that upheaval in the Middle East and the natural disaster in Japan have caused an increase in trading activity in the I Fund. The I Fund trading costs were \$1.8 million, or 22 basis points, in February. So far in March, the I Fund trading costs are \$8.2 million, or 106 basis points.

The G Fund rate was 2.88% in February. It rose to 3% in March. The net rate of return for all of the equity funds was positive for the month of February. The S Fund is up 4.5%, the C Fund is up 3.4%, and the I Fund is up 3.3%. The TSP's equity funds have more than doubled since March 2009. The C Fund and I Fund are up 105% and the S Fund is up 148% since March 2009.

Lastly, Ms. Ray reported that over 15,000 participants have invested almost \$500 million in the new L 2050 Fund. Mr. Saul pointed out that the Thrift Savings Fund balance is \$291 billion dollars.

c. Legislative Report

In Mr. Trabucco's absence, Mr. Long explained that the budget continues to be the primary topic of discussion in Congress. Although a Federal government shutdown would not directly impact the Thrift Savings Plan, the Agency continues to monitor the budget discussion for proposals that may affect the Thrift Savings Plan.

d. Financial Literacy Month

Ms. Moran reminded the Board that April is Financial Literacy Month. She briefly mentioned some of the ways in which the Agency participates in Financial Literacy Month. For example, each year the Agency creates a poster for

employing agencies to display or distribute during the month of April. This year's poster is called "Does your TSP account need a checkup?" (attached). The Agency will participate in financial literacy fairs throughout the month of April. The Agency is also directing participants to a new "Ways to Save" page on the TSP website (attached). This web page shows participants how much they could have to invest over the course of ten, twenty, and thirty years by saving the cost of small items such as coffee, bottled water, text messages, etc. every day.

Mr. Long explained that Financial Literacy Month is not specific to the TSP. Rather, it is a multi-organization nationwide campaign that attempts to spread a broad message about financial literacy.

4. Audit Report Findings Summary Report.

Mr. Petrick reviewed the March 18, 2011 memorandum entitled, "Update on audit recommendations 2003-2010" (attached). He explained that the memorandum provides a numerical summary of all of the audits conducted by the Department of Labor (which contracts with KPMG), Deloitte and Touche, Clifton Gunderson, and GAO between 2003 and 2010.

Overall, the Agency has received 100 audit recommendations between 2003 and 2010. Fifty-nine (59) of those audit recommendations have been closed by the auditor. Eleven (11) have been closed by the Agency, but the closure has not yet been validated by the auditor. The Agency did not concur with two (2) of the GAO recommendations. Thus, (28) audit recommendations remain open. Twenty-two (22) of the twenty-eight (28) open audit recommendations are DOL/KPMG recommendations.

5. Audit Report Discussion.

Mr. Petrick briefly discussed the results of three recent public audits conducted by DOL/KPMG. First, he explained that DOL/KPMG audits the Thrift Savings Plan account maintenance process once every three or four years. The most recent audit of the account maintenance process explored whether procedures and controls were adequate during calendar year 2009 to accurately and timely process TSP account maintenance transactions, including TSP contributions, interfund transfers, breakage, adjustments, forfeitures, and forfeiture restorations. This audit produced no recommendations.

Second, Mr. Petrick explained that DOL/KPMG regularly audits the Thrift Savings Plan loan process. The most recent audit of the loan process closed a recommendation from a prior audit and produced two additional recommendations. Mr. Petrick reported that both new recommendations are being implemented.

Third, Mr. Petrick explained that DOL/KPMG conducted an extensive audit of the Agency's project management practices. DOL/KPMG also assessed the

status of twelve prior recommendations from five separate IT performance audits. Mr. Long informed the Board that the Agency has hired two certified project managers to work under the Director of Research and Strategic Planning. The Agency has also hired a new security manager resource to implement many of DOL/KPMG's IT recommendations.

Mr. Long added that he expects the Agency's project management practices and IT security documentation procedures will improve significantly before the next audit report. Mr. Petrick further explained that many of the prior IT recommendations pertain to initiatives for documenting security were put on hold until the TSP's modernization project was complete.

Mr. Hagerty discussed the remaining tasks necessary to complete the modernization project. The Office of Automated Systems (OAS) is working with the Agency's procurement staff to remove excess equipment from Reston, which was formerly the location of the primary data center. OAS will then work with the Office of Participant Services to migrate agency payroll offices from the Reston site to the new primary data center in Vienna. Finally, OAS will complete migration to new storage area networks.

Mr. Saul asked Mr. Hagerty when he anticipates the move from Reston to be completed. Mr. Hagerty explained that the move was originally planned to be completed by the end of February, but he now anticipates that it will be completed by June 30th. He expects migration of the new storage area networks to be completed by June 30th as well.

Mr. Saul asked if the Agency has tested the back up data center in Pittsburgh recently. Mr. Hagerty explained that a full disaster recovery test of the Pittsburgh center is planned for this fall. Mr. Saul asked if there was reasonable assurance that the Agency could rely on the Pittsburgh data center if the Vienna data center went down. Mr. Hagerty assured Mr. Saul that the network infrastructure would automatically redirect all of the Agency's activities to the Pittsburgh back up data center. All of the mission critical lines are redundant.

Mr. Kennedy asked Mr. Long if he feels comfortable that the Agency has the right policies, procedures, and personnel in place to address compliance issues. Mr. Long expressed confidence that the right policies, procedures, and personnel are in place. He explained that DOL/KPMG's outstanding audit recommendations do not suggest that there are weaknesses in the Agency's policies and procedures themselves. Rather they address weaknesses in documentation of those policies and procedures.

6. Department of Labor Audit Briefing.

Mr. Bailey briefly described the Department of Labor's oversight responsibility under the Federal Employees' Retirement System Act (FERSA). He

explained that the DOL's audit of the Thrift Savings Plan is designed to determine whether the fiduciaries are acquiring, protecting and using TSP resources economically, efficiently and solely in the interest of TSP participants and beneficiaries.

Mr. Bailey reported that DOL/KPMG found no instances of material noncompliance with FERSA during their fiscal year 2010 audit. Mr. Bailey reiterated that outstanding recommendations related to IT security documentation should be implemented more timely and that project management practices should be strengthened.

Mr. Bailey reported that DOL/KPMG audited the Agency's L Fund processes and determined that the Agency has implemented adequate procedures to target allocations and to review assumptions used to derive fund allocation. Mr. Bailey also reported that DOL/KPMG audited the Agency's loan process and determined that the Agency has adequate procedures to promptly and accurately process TSP loan transactions, disburse loans in accordance with regulations and participant authorization, record loan activity, and to limit participation in the program to eligible participants. Finally, Mr. Bailey reported that DOL/KPMG audited the Agency's account maintenance processes and determined that the Agency has adequate procedures to accurately and promptly process and/or reflect TSP contributions, interfund transfers, and breakage, daily valuations, and fund balances.

Mr. Bailey informed the Board that DOL/KPMG is auditing BlackRock as part of its TSP Oversight Program and that he will report the results of that audit within ninety days. He also reminded the Board that, due to budget constraints, DOL/KPMG last audited BGI (BlackRock's predecessor) five years ago. Mr. Saul asked Mr. Bailey to make it a priority to audit BlackRock more frequently than every five years.

Ms. Flanagan discussed the scope and schedule of audits planned for the 2011 audit cycle. The first planned audit is the audit of BlackRock. This audit investigates compliance with conditions of certain prohibited transaction exemptions and compliance with the provisions of the contract between the Agency and BlackRock. This audit began in January 2011.

Ms. Flanagan explained that the second audit planned for the 2011 audit cycle is a full scope audit of the withdrawals process. This audit will cover processing, disbursement, and record-keeping of withdrawals. It will also cover policies and procedures related to abandoned accounts. This audit is scheduled to begin in April 2011. This audit was last performed in 2005.

Third, DOL/KPMG is planning a full scope audit to address computer access controls and project vulnerability. During this audit, DOL/KPMG will determine whether controls safeguarding computerized access to data and programs are in place to prevent any unauthorized use, modification, damage, or

loss of data. This audit is scheduled to begin in August 2011 and end in September 2011.

DOL/KPMG also plans to conduct full scope audits of MetLife's annuity operations and G Fund operations at the U.S. Treasury.

Mr. Sanchez asked Ms. Flanagan if she would informally report to the Board if, during the course of an audit, she become aware of a major problem that is outside the scope of the audit. Ms. Flanagan assured Mr. Sanchez that she would raise any major problems that DOL/KPMG becomes aware of during the course of an audit.

7. Roth Project Update.

Ms. Wilder reviewed the March 16, 2011 memorandum entitled "Status of Roth TSP Implementation" (attached). Ms. Wilder explained that knowledge gained since August 2010 and lessons learned from deploying significant new code at year-end have led the Agency to conclude that the 2nd quarter, rather than the 1st quarter, of calendar year 2012 is a more appropriate launch date for Roth TSP. A 2nd quarter launch date will enable the Agency to minimize expenses by using the annual participant statement as a launch announcement and will allow payroll offices sufficient time to redesign their systems to accommodate new Roth requirements. It will also reduce risk of processing and system failures by separating the deploying of new code associated with Roth TSP implementation from periods of high systems processing (e.g., year-end).

8. Closed Session.

On a vote taken by the Chairman, the members closed the meeting at 11:44 a.m. for executive session.

At 12:37 p.m., upon completion of the executive session, the members reconvened the open portion of the meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 12:37 p.m.


Thomas K. Emswiler
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. February 2011 Performance Review – G, F, C, S, I, and L Fund
3. Financial Literacy Month Poster
4. Ways to Save
5. Update on Audit Recommendations 2003-2010
6. Status of Roth Implementation