



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

October 17, 2011

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on October 17, 2011, at 9:01 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 Andrew M. Saul of New York, member; Alejandro M. Sanchez of Florida, member (by telephone); Dana K. Bilyeu of Nevada, member; Gregory T. Long, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Troy N. Poppe, Deputy Chief Information Officer; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Renée Wilder, Director, Research and Strategic Planning.

1. Approval of the minutes of the September 16, 2011 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the September 16, 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 September 16, 2011 be approved.

2. Recognition of Outstanding Service By Former Chairman Saul and Board Member Sanchez.

Chairman Kennedy then honored the service of former Chairman Andrew Saul and Board Member Alex Sanchez. Mr. Kennedy praised Mr. Saul's leadership and specifically his role in ushering in changes related to technology and communications. Both Mr. Saul and Mr. Sanchez have demonstrated an unwavering commitment to the TSP's participants. Mr. Saul and Mr. Sanchez are leaving the TSP in much better shape than they found it. Ms. Bilyeu noted that Mr. Saul and Mr. Sanchez helped to shape the TSP into the premiere deliverer of defined contribution products.

Mr. Sanchez thanked Mr. Saul for his leadership, and Mr. Long also thanked Mr. Saul and Mr. Sanchez for their contributions in helping 4.5 million people retire with dignity.

Mr. Saul thanked everyone for their kind words and noted that the Agency's senior staff should be especially proud of their accomplishments over the

last nine years. When Mr. Saul took over, the TSP had fallen into neglect and today it is in great shape. Mr. Saul noted that the TSP is in great hands and that Chairman Kennedy has his full support.

Chairman Kennedy and Mr. Long then presented Mr. Saul with a plaque in recognition of his nine years of outstanding service to the Thrift Savings Plan. Mr. Sanchez will receive a similar plaque at the next meeting.

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). September continued to be a difficult month as far as fund performance, and fifty-four percent of the TSP’s assets are held in the G and F Funds. The Fund’s assets under management are down just under three percent to \$272 billion.

The good news is that the Plan exceeded 4.5 million participants and now has 4.512 million participants. The TSP’s participation rate is 85.5 percent. The participation rate in the uniformed services is holding steady at 39.2 percent.

As far as automatic enrollment, Ms. Wilder noted that only 2.7 percent of newly enrolled participants are opting out of the TSP and over 129,000 participants have actively elected the TSP. Of this number, over 100,000 are individuals that have made an investment decision, and the majority of this group made a deferral change. Further, over 700 of these individuals rolled over funds into the TSP.

Ms. Wilder also noted that her group is looking at loan and withdrawal trends. So far, the research indicates that TSP participant loan and withdrawal activity is not as widespread as it is at other plans, but Ms. Wilder’s group is still conducting its research.

b. Quarterly Investment Performance Report

Ms. Ray reviewed the October 7, 2011 memorandum, entitled “September 2011 Performance Review – G, F, C, S, I, and L Funds” (attached). September marked the fifth month in a row that the equity funds declined. During the month, the BlackRock funds tracked very closely to their underlying indices. Due to the optimization process, there was a bit of tracking error in the Small-Mid Cap Fund for the month and year-to-date. In the International Fund there has been some tracking error as a result of the tax effect and, this month, there is tracking error as a result of a fair value adjustment.

The G Fund rate dropped to 1.63 percent for October. Rates have since risen slightly. At one point, the yield on the 10-year note dropped to 1.7 percent, but it has come back up to 2.2 percent. If that trend continues, it is likely that the G Fund rate will rise a bit next month.

As far as returns, in September, two funds, the S and I Funds, were down more than ten percent, and the C Fund was down seven percent. The funds continued to fall in early October and hit the lows for the year on October 3rd. At that point, the I Fund and C Fund were down almost three percent for the month, and the S Fund was down an additional five percent. For the year to date as of October 3, the C Fund was down 11 percent, the S Fund was down 19 percent, and the I Fund was down 18 percent.

However, since then, there has been positive news in the markets. For October, the C Fund is up more than eight percent, and the S Fund is up almost ten percent. Further, despite the problems in Europe, the I Fund is up nine percent. Year-to-date, the C Fund is down only one percent.

Despite the turbulence in the market, interfund transfers fell by more than half for the month from 239,000 to just 104,000. Ms. Ray noted that there was a drop in contributions to the S and I Funds and an increase in contributions to the G Fund.

BlackRock's proxy voting was audited, and there were no exceptions found.

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 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 are affirmed without change.

c. Legislative Report

Mr. Trabucco provided an update regarding several issues relating to the Board member confirmation and nomination process. Mr. Ron McCray's nomination is still on track for consideration by the Committee on Wednesday. The Congressional staff members with whom Mr. Trabucco spoke are unaware of any problems relating to Mr. McCray's nomination. Mr. McCray will replace Mr. Saul.

Ms. Bilyeu's nomination is the first to go forward under the Senate's new expedited rules. Her nomination was placed on the calendar on October 6th and may also come up for consideration at the end of this week. Mr. David Jones' nomination is still not scheduled for action because the Office of Government Ethics has not yet completed its review of material relating to his nomination. Mr. David Jones is the nominee who would replace Mr. Sanchez.

4. Quarterly Vendor Financial Report.

Mr. Petrick reviewed the October 7, 2011 memorandum (attached), entitled "Quarterly Financial Assessment of TSP's Primary Vendors – Second Quarter 2011." Because this is a mid-year review, Mr. Petrick addressed each vendor individually.

Serco Services Inc., which provides recordkeeping, software maintenance and development, and call center services, is in a very strong financial position and continues to increase its profitability. The company, which does a lot of work with the military in the United States and the United Kingdom, has obtained new contracts in both countries. Overall, there are no particular concerns with Serco's financial position.

BlackRock, Inc., the Agency's investment manager for the C, F, S, and I Funds, is also in a strong financial position. BlackRock's revenue and net income increased during the period reported. The company currently has \$3.66 trillion under management which makes them the largest investment manager in the world.

Equinix Inc., which supports the Agency's primary and back-up data center facilities, also has robust financials. Its revenue and income were both up

strongly from the same period last year, and it just received a new credit facility of \$150 million.

R.R. Donnelley & Sons, the vendor which provides the Agency's printing services, had an increase in revenue during the period but its profits were lower. The printing business continues to face significant challenges. R.R. Donnelley is trying to get a foothold in digital publishing. The Agency's contract with R.R. Donnelley will be competed next year.

MetLife, the Agency's annuity provider, showed increased revenues but its profits were somewhat lower. MetLife is still integrating with Alico which it purchased from AIG Group. This caused its rating to be downgraded at the beginning of last year, and those ratings have remained stable ever since. Because individuals are reluctant to lock in low rates, the extremely low interest rate environment provides a significant challenge to the annuity business. However, MetLife's cash position remains very strong and, overall, there are no real concerns with its financial position.

The Active Network, Inc., which runs the Agency's call center in Maryland, went public via an IPO in May, and this is why the Agency can now discuss its financials in public session. As has been the case for some time, Active Network's financials show that it has still not obtained profitability. Its revenues are up and its losses are smaller than they were for the same period last year. The company continues to pursue a very strong growth policy and looks for potential acquisitions. Active Network is now a leading provider of sports booking software and repaid some of its large debts as a result of its May IPO. The company's earnings look positive and, overall, there are no concerns with the company's ability to support the Agency's operations.

Mr. Sanchez commented, and Mr. Petrick agreed, that Serco's large contract with the Department of Defense likely means that the company has been fully vetted by the military community. Serco does extensive work with the military and intelligence communities and there have been no reported concerns with its security or infrastructure.

Chairman Kennedy noted that the new Board members would be interested in visiting the data centers and call centers at some point in 2012.

5. Mid-Year Financial Audit Report.

Ms. Anne Beemer, Controller, then introduced the Agency's auditors from Clifton Gunderson. The team includes Ms. Marie Caputo, Audit Partner, Mr. Bill Oliver, Quality Assurance Partner, Ms. Michele Chalmers, Financial Audit Senior Manager, and Mr. Bob Halpin, IT Senior Manager. Mr. Caputo reviewed the October 17, 2011 presentation (attached). The Clifton Gunderson team recently completed a review of the interim financial statements for June 30th. The Board members

received a copy of the reviewed financial statements for June 30, 2011 and 2010. (attached). Ms. Caputo noted that a review is not as in-depth in scope as an audit. The year-end audit procedures will be much more extensive.

During their review, the auditors are looking to determine whether there are any material adjustments required to correct the financial statements or disclosures in order to bring them into compliance with Generally Accepted Accounting Principles. The team is also evaluating where the Agency stands with the internal control comments which have been previously reported and will be sharing those reports as well.

Ms. Chalmers provided a summary of the review's results. The review revealed that there is no need for any material modifications to the June 30, 2011 Financial Statements in order for them to be in compliance with accounting principles generally accepted in the United States. Clifton Gunderson did not, however, issue any opinion on internal controls during this reporting period. Ms. Caputo noted that her team has shared the highest level of assurance under review services that, at this time, it can provide.

Mr. Halpin then discussed the status of prior recommendations. In its April report, Clifton Gunderson identified 10 findings related to information technology. One of these findings was a significant deficiency, and nine were reported as other matters. Four of the ten were related to prior-year findings which were carried forward. The ten findings relate to general IT controls such as security, management, access controls, configuration management, and service continuity. In response to these findings, the Agency's management put together an Enterprise Information Security and Risk Management Program Directive which was signed by the Executive Director on September 22nd. This directive was developed to establish a top-down IT security and risk management framework and to formalize IT security roles and responsibilities. It also cross-references various supporting IT policies and procedures. Mr. Halpin noted that this directive is a good starting point for addressing the previously identified significant deficiency regarding a risk management framework. Though still in development, there are also efforts to provide a risk assessment and security authorization for systems like the ThriftLine.

Mr. Poppe then provided an overview of the Agency's new Enterprise Information Security and Risk Management Program (EISRM) Directive. The Federal Information Systems Management Act (FISMA) requires agencies to implement information security across their information systems and also prescribes the roles and responsibilities of the agency head and CIO. Per FISMA, the National Institute of Standards and Technology (NIST) was tasked with putting together security standards, and also guidance and controls for Federal agencies to aid them in complying with FISMA. The new EISRM directive establishes agency roles and responsibilities as far as system security. Further, the directive establishes a framework as far as how the agency will secure its information and manage risk.

The EISRM directive is three-tiered. Agency executives set the security strategy which then informs the business processes and functions and ultimately determines the specific controls.

The third and fourth components of the program provide policies regarding both what not to do and best practice standards. Mr. Long noted that Mr. Bruce Jones, who reports to Mr. Poppe, is chiefly responsible for the creation of the EISRM directive.

Mr. Halpin noted that once the EISRM is fully implemented, it will address and mitigate the risks identified by Clifton Gunderson. The second of the auditors' finding (2010-2) relates to the formalization of IT policies and procedures. There are numerous policies which are addressed and referenced by the new EISRM directive.

The next recommendation (2010-3) relates to findings regarding password configuration settings on various fund management systems which had some misconfiguration settings. Subsequent to providing the Notice of Finding and Recommendation, the agency notified Clifton Gunderson that these settings had been corrected and revised. Mr. Halpin noted that this finding also ties to an identification and authentication policy which would be the driver of standardized password configuration settings.

Recommendation 2010-4 relates to change control policies and system development life cycle methodology which is also tied to the EISRM directive and the development of a configuration management policy which was in draft form at the time of the review but has been formalized and integrated by reference by the new EISRM directive.

Comment 2010-5 relates to the logging of user system activity and the development of an audit and accountability policy. Mr. Halpin's team found that there is some logging in the general ledger system and on the network which could be strengthened or turned on.

Recommendation 2010-6, User Access Administration, addresses weaknesses in the process to request, approve, and document user access requests to TSP systems. The development of an access control policy will assist to formalize this process, and a database to track approvals is currently undergoing testing.

Comment 2010-7 regarding duplicate and generic network accounts relates to the recommendation that network accounts are reviewed on a regular basis and that any duplicate or generic network accounts are disabled as needed. Ms. Halpin then made a general comment that on the areas where his team issued a finding, management took corrective action.

Recommendation 2010-8 speaks to the issue that 23 disaster recovery plans have not been kept up-to-date. As part of the systems modernization effort, management is in the process of revising those plans as needed.

Comment 2010-9 is related to the service provider control assurance which ties to the data center. In the past, an SAS-70 was provided to management to assure them that controls existed at the Equinix data center, and last year an SAS-70 was not performed. For FY 2012, an SSAE 16 (the new SAS-70) will be performed.

Finally, comment 2010-10 regarding service level agreements found that some of the contracts with certain agency vendors did not specify performance levels. To enable the Agency to hold its vendors accountable, Clifton Gunderson recommends that the agency develop a service level agreement that communicates required standards or service levels such as time performance of the network or connectivity. Mr. Long noted such metrics will be incorporated into the Agency's contracts in 2012.

Ms. Caputo noted that the Agency and Clifton Gunderson are entering the fourth year of their five year audit contract. The scope of the services provided by Clifton Gunderson will be the same as it has been in the past including an analysis of the financial statements as well as a report regarding internal controls and other matters the team feels are relevant. Ms. Caputo noted that her team will not be providing an audit opinion regarding internal controls but will only review internal controls as far as their relationship to the financial statement audit. In the past, Clifton Gunderson has provided an unqualified audit opinion (the highest level of audit assurance) and expects to do so in the future. However, should something jeopardize the team's ability to issue such an opinion, the team will communicate such an issue with the Agency's management. As far as timing, the audit team has completed the planning phase and anticipates presenting its results to the Board in April 2012.

Mr. Long thanked Ms. Caputo and her team. He noted that the Agency has made significant improvement but anticipates that in April there will likely still be work to be done to resolve all audit recommendations. Ms. Beemer oversees the Agency's internal controls process and is working diligently to establish those procedures. Mr. Petrick noted that Ms. Crowder and her team are responsible for the fact that there are no financial or accounting recommendations. Ms. Bilyeu commended the team on its progress as far as the open IT related recommendations.

## 6. Educational Material

Ms. Moran then commented on the TSP click and write mousepads which were presented to each Board member. These mousepads are being distributed by the Agency at conferences and training to promote awareness of the

TSP and its features. The mousepads have helpful quotes and messages on each page which are intended to educate participants about the Plan. Ms. Moran's group has seen that face-to-face contact with participants impacts enrollment and that these types of tools also facilitate TSP participant education and involvement.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 10:08 a.m.

MOTION: That this meeting be adjourned.



Thomas K. Embwiler  
Secretary

#### Attachments

1. Thrift Savings Fund Statistics
2. September 2011 Performance Review – G, F, C, S, I, and L Fund
3. Quarterly Financial Assessment of the TSP's Primary Vendors – Second Quarter 2011
4. Clifton Gunderson October 17, 2011 Presentation
5. Thrift Savings Fund Financial Statements June 30, 2011 and 2010