



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE Washington, DC 20002

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 20, 2015

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 20, 2015, at 8:30 a.m., Eastern Time. Parts of the meeting were open to the public and parts of the meeting were closed at the Board's offices at 77 K Street, N.E. In attendance were Dana K. Bilyeu of Oregon, member; Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Greg Long, Executive Director; James B. Petrick, Secretary and General Counsel; Mark E. Walther, Chief Operating Officer; Tracey A. Ray, Outgoing Chief Investment Officer; Ravindra Deo, Chief Investment Officer; Renée C. Wilder, Director, Office of Enterprise Planning; Kimberly A. Weaver, Director, External Affairs; Thomas K. Emswiler, Director, Office of Participant Operations and Policy; Susan C. Crowder, Chief Financial Officer; Anne Beemer, Deputy Chief Risk Officer; Gisile Goethe, Director, Office of Resource Management; Jim Courtney, Director, Office of Communications and Education; Scott Cragg, Chief Technology Officer, and Charles Bradshaw, Executive Advisor to the Executive Director.

1. Approval of the minutes of the March 23, 2015 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the March 23, 2015 Board member meeting. Board Member Jones proposed one edit, and the following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting that was held on March 23, 2015 be approved with the edit as provided by Board Member Jones.

2. Thrift Savings Plan ("TSP") Activity Report by the Executive Director.

Mr. Long informed the Board that a long time Agency employee, Natale Mogensen, passed away early in April. Ms. Mogensen was a budget analyst and first starting working for the Agency in 1990. She was a valued member of the Agency team and community, and will be greatly missed. Mr. Long asked for a moment of silence to honor her.

a. Monthly Participant Activity Report

Mr. Emswiler provided an overview of the Monthly Participant Activity Report. See "Thrift Savings Fund Statistics" (attached). The Plan assets decreased in April by approximately 1 billion dollars, while balances for Roth accounts increased by 120 million dollars. The participation rate continued to increase to 88.4 percent, an all-time high for the plan. Mr. Emswiler noted that the Roth option remains popular with members of the uniformed services, who make up approximately 23.5 percent of the Plan's participants but hold 49.8 percent of the Roth accounts. Transfers out of the plan remain high, with over 740 million dollars leaving the plan in April as transfers to other retirement vehicles. Board Member Jasien expressed his concern about outgoing transfers, and asked when a discussion around a solution would take place. Mr. Long informed the Board that a discussion around withdrawal flexibility, one of three long term strategies the Agency is considering, would take place at the July Board meeting.

b. Legislative Report

Ms. Weaver informed the Board that once Congress approves a budget resolution and a conference report is issued, she will be able to better assess whether the budget will have any direct impact on the TSP. Ms. Weaver noted that she would continue to monitor any developments regarding potential changes to the G Fund. Ms. Weaver also reported that five veterans' service organizations had recently sent a letter to the Senate Chair and Ranking member endorsing the Military Retirement Commission's recommendations to have auto-enrollment in the TSP and agency matching for uniformed service members.

c. Monthly Investment Performance Report

Mr. Deo reviewed the memorandum entitled "March 2015 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. Deo reported that the F Fund was up because interest rates fell by 4 basis points. The C Fund and I Fund were both down, driven by the strength of the U.S. dollar. The I Fund had a 9 basis point gain vs. the benchmark because of the tax effect, and the I Fund's year-to-date returns continued to show the effects of the reversal of the fair market value pricing on December 31st. Mr. Deo reported that in the fourth quarter proxy report, Institutional Shareholder Services found no exceptions, and no claims were opened for any of the funds during the fourth quarter.

Mr. Long reminded the Board that a vote to affirm the Investment Policy is required each quarter. Chairman Kennedy moved that the Board reaffirm the current G

Fund policy of investing solely in short-term maturities and that the Board reaffirm the current F, C, S, and I Fund investment policies. The Board members then 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 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.

3. **Quarterly Metrics Report.**

Mr. Ahuja provided an assessment of key vendors that could have the potential to impact the Agency's business (attached). The assessment tracked nine vendors, three of which are privately-held companies. The report concluded that there is no indication any of these vendors would be unable to fulfill their contractual obligations, but Mr. Ahuja did report that three companies had higher than ideal debt loads, meaning that they are highly leveraged. However, based on the analysis within the report and the Agency's mitigation plan, there is no anticipated impact to their ability to fulfill their contractual obligations with the Agency. Mr. Ahuja also reported that a new contract for Print and Mail Services was awarded in February to Broadridge Financial Solutions, which is currently in the transition process and will fully take over mailing services for the TSP in early May. In response to a question from Board Member Jones, Mr. Ahuja explained that after September, Equinix, Inc, would no longer be responsible for guaranteeing the performance of 365 Data Centers.

4. Audit Status Summary

Mr. Ahuja provided an update on Agency audit activity actions, and highlighted any changes from the last update in December 2014. Mr. Ahuja reported that there were 16 new audit findings from DOL/KPMG, and CliftonLarsonAllen closed 3 findings. Mr. Ahuja reported that of the 111 total open audit recommendations, the Agency considers 64 closed, and has a monthly monitoring system and timeline to resolve the remaining ones.

5. Budget Review

Ms. Crowder provided an update on the budget, stating that at the mid-year point of fiscal year 2015 that the Agency is aligned with the projected \$207 million budget allocation.

6. Project Activity Report.

Ms. Wilder presented the Board with an update on the state of the Agency's projects (attached). Ms. Wilder reported that 25-30 projects are currently in various points along the project management framework, and range from cross-functional teams developing feasibility papers to projects concerning system and benefits enhancements. Based on a suggestion from Board Member Bilyeu, Mr. Long committed to a more detailed schedule in the next Agency project update.

7. Annual Financial Audit (CliftonLarsonAllen)

Mr. Thomas Rey, CLA's Engagement Principal, gave a presentation on their recently performed independent audit (attached). Mr. Rey thanked the management team for their work to mitigate previous deficiencies in internal controls, and noted the significant progress that had been made. The audit resulted in an unmodified (clean) opinion that the financial statements are presented in all material respects in accordance with Generally Accepted Auditing Standards (GAAS), and found no material weaknesses. Mr. Halpin, CLA's IT Audit Senior Manager, reviewed the one significant deficiency found relating to system authorizations, and acknowledged that it was not a quick fix but instead a long-term strategic effort, and that 10 of 19 systems were authorized and the remainder on track to be authorized by the end of the calendar year. He noted that the Agency had made significant improvement from several years ago, and that CLA greatly appreciated management's efforts.

Mr. Halpin also reviewed 3 other matters that did not rise to the level of a significant deficiency regarding segregation of duties, inactive accounts, and the logging

and monitoring of user system activity. Mr. Halpin reported that management concurred with all recommendations and identified remedial actions and milestone deadlines which if implemented will reduce the risk to an acceptable level.

The Board asked CLA if they had a need to discuss concerns separately with the Board, and CLA noted that it did not require such a meeting.

8. Mainframe audit.

Mr. Ahuja reviewed the results of the audit of the mainframe configuration's management system that was conducted by KPMG as a contractor of DOL. Out of the 7 findings, 6 are considered fundamental and 1 is considered other, which is of less significance. The recommendations focus on enhancing mainframe security through policy and procedures, segregation of duties, and access controls. The Agency concurred with all findings and is committed to a corrective action plan.

9. Fiduciary Oversight Program Summary (Department of Labor)

Ian Dingwall, Chief Accountant at the U.S. Department of Labor (DOL) Employee Benefit Security Administration (EBSA) gave a presentation, entitled, "Fiscal Year 2015 Thrift Savings Plan Fiduciary Oversight Program" (attached). Mr. Dingwall introduced Mr. Michael Auerbach and Mr. Jonathan Matzkin from DOL, and Ms. Heather Koppe Flanagan, Mr. James DeVaul, Mr. Derek Thomas, Mr. Howard Simanoff, Ms. Alvamerry Schaefer, and Mr. Nathan Faut from KPMG. Ms. Koppe Flanagan, KPMG, gave an overview of the audit schedule, which includes full scale audits in all major areas of DOL's TSP audit program for the first time in many years. The audits will cover a wide variety of IT related operations and basic TSP processes, as well as a number of special projects scheduled for the year. Mr. Dingwall noted that the audit schedule was increased because his budget was increased. Ms. Flanagan provided an update on major scheduling dates, including planned exit conferences and planned audit field work, and explained that the schedule had been adjusted to allow some of the audits to be completed in 2016 in order to ensure enough available resources. She reported that the total number of open recommendations had decreased by a net of 5 since her presentation to the Board a year ago.

Mr. Dingwall reported that of the 4 audits that were completed in 2014, DOL found no material noncompliance with FERSA, and that 12 agency recommendations were closed. Mr. Dingwall also reviewed the mainframe configuration report that found seven findings related to mainframe security, and stressed that without proper mainframe controls, including a regularly updated Plan of Action and Milestones (POAM), the security of the mainframe's environment could be at risk. Mr. Dingwall

recognized the Board's utmost commitment to resolving any security related findings, but expressed his concern that some of the solutions proposed by Agency management could take time to implement. Mr. Dingwall informed the Board that one of DOL's main audit goals is to complete a penetration test of the Plan's system. He explained that DOL and the Agency had not yet entered into the rules of engagement to go forward with penetration testing, which would make sure access would be restricted if security was compromised by an outside entity. Mr. Dingwall explained that he viewed the recommendations from Agency counsel that Agency management had sent DOL as a high hurdle to starting the penetration testing. Mr. Dingwall added that he was not opposed to the Agency performing the test themselves.

Mr. Long explained that the Agency fully supports a robust audit program, but had significant reservations about starting penetration testing without a fully defined and executed rules of engagement document, which is standard operating procedure in the security field. Mr. Cragg emphasized the need for the Agency to be in control of the security environment even under the circumstances of a penetration test, and the need to understand the potential consequences of the penetration team's actions. Mr. Ahuja explained that the Agency is seeking a better understanding of the procedures and resources being used for the testing, in order to be able to evaluate the potential impact and disruption the testing will likely have on the production environment. Mr. Ahuja also reported that the proposed testing team includes a KPMG subcontractor, and stressed the need to finalize potential liability concerns before testing should go forward. Mr. Long explained that although the Agency had concerns over the testing, they were having discussions with DOL and actively working to reach an agreement, and at the Board's suggestion, scheduled a progress update for next month's Board meeting.

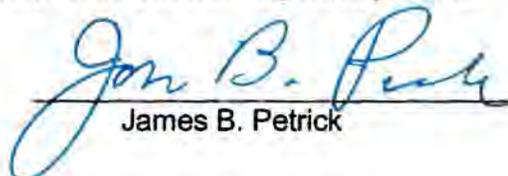
10. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:57 a.m. for executive session.

At 10:57 a.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 Kennedy adjourned the meeting at 10:57 a.m.

MOTION: That this meeting be adjourned.


James B. Petrick

Secretary

Attachments

1. Thrift Savings Fund Statistics
2. March 2015 Performance Review – G, F, C, S, I, and L Funds
3. Quarterly Vendor Financial Assessment April 20, 2015
4. Quarterly Summary of Audit Recommendations
5. FRTIB FY 2015 Q2 Budget Review
6. Key FRTIB Activity Levels 2nd Quarter 2015
7. CliftonLarsonAllen Letters to the Members of the Board
8. CLA Federal Retirement Thrift Investment Board, Thrift Savings Fund 2014 Audit
9. Thrift Savings Fund Financial Statements
10. US DOL EBSA Fiscal Year 2015 TSP Oversight Program