



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

February 27, 2017

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on February 27, 2017, at 8:31 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 (by telephone); Greg Long, Executive Director; Dharmesh Vashee, Acting General Counsel and Acting Secretary; Ravindra Deo, Chief Investment Officer and Acting Chief Operations Officer; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; James Courtney, Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Jay Ahuja, Acting Chief Technology Officer; Tee Ramos, Director, Office of Participant Operations and Policy; Anne Beemer, Acting Chief Risk Officer; Renée C. Wilder Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the January 23, 2017 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the January 23, 2017 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 January 23, 2017 be approved.

2. Thrift Savings Plan (TSP) Activity Report.

Mr. Long gave opening remarks noting that there would be the standard monthly reports, a review of the quarterly reports, and an update on the status of several audits. Mr. Long then invited Mr. Courtney to highlight agency activities related to Military Saves Week. Mr. Courtney concluded his report by showing a new online video "Three Ways to Add \$100,000 to Your TSP Account."

a. Monthly Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Mr. Ramos noted that Federal Employees Retirement System (FERS) participation rates are at an all-time high, at 89.8 percent. He also noted that there was an increase in Uniformed Services participation rates from 44.9 percent to 45.7 percent for January. Additionally, Mr. Ramos noted that we have an increase in participants commencing new monthly payments.

b. Legislative Report

Ms. Weaver noted that there are two pending bills of note. The first is H.R.760 - Postal Service Financial Improvement Act of 2017, which would require the Secretary of the Treasury to invest a portion of the Postal Service's retiree health benefit pre-funding in a long-term Fund based on the TSP's L Funds, but outside of the TSP's fund. She noted that the bill will require the Secretary to consult with a newly established advisory board, which will include the chairman at the Federal Retirement Thrift Investment Board (FRTIB). Ms. Weaver noted that this creates potential conflicts of interest, potential issues with ethics filings, and Hatch Act issues.

Ms. Weaver presented information on the second bill of note, H.R. 1083 – The American Savings Account Act, which would allow any worker who is not currently covered by an employer-sponsored retirement savings plan to access a new kind of retirement savings account. Ms. Weaver noted H.R.1083 would also create a nine-member board of directors that would include the FRTIB's executive director and three FRTIB board members serving on the advisory board.

c. Investment Policy Report

Mr. Deo reviewed the monthly investment performance report. See "January 2017 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. Deo indicated that in January, the F fund outperformed the benchmark by four basis points, primarily due to securities lending. He noted that performance for the C, S, and I Funds was in line with benchmarks. The I Fund had the best return for the month, primarily due to the weakening of the U.S. dollar. Mr. Deo stated that the C and S Funds had gains based on expectations for an improving economy and lower taxes, as well as on evidence of economic strength. The F fund had a moderate gain as interest rates stayed flat for the month.

Mr. Deo stated that for the month of February through close of business on Friday the 24th, the C Fund is up 4.12 percent, the S Fund is up 2.84 percent, the I Fund is up 1.28 percent, the F Fund is up 9 basis points, and the G Fund is up 16 basis points. He also noted that the L Funds are performing exactly as expected.

3. Quarterly Reports.

a. Quarterly Performance Measurement Report

Mr. Geof Nieboer, Business Intelligence Chief of the Office of Enterprise Planning, provided an overview of the Agency's performance metrics for the first quarter of fiscal year 2017. See "FRTIB Performance Measurement Report: 1st Quarter Fiscal Year 2017" (attached). Mr. Nieboer explained that the first metric will be written as the Employee Skills Index, which is a new metric for FY 2017. He stated this new metric includes implementing new work force planning processes to allow the

Agency to better identify and target skill gaps in the workforce. Mr. Nieboer explained the next two metrics, the Best Places to Work and Employee Engagement metrics, are derived from the Federal Employee Viewpoint Survey. He noted that this is an annual metric and that it dropped from the previous year. Mr. Nieboer explained that the Agency attributes the drop to increasing levels of change as the Agency has experienced significant growth.

Mr. Nieboer noted that the only metric the Agency failed to meet was the external audit finding closure rate, as four of the twelve items that the Agency was scheduled to close were actually closed. He explained that the 90-day sprint and significant management focus on closing critical findings in the short-term has been implemented. Additionally, the Agency is working on changing business processes to improve the quality and timeliness of closure actions.

Mr. Nieboer noted that the FERS participation rates exceeded the threshold, but have not yet met the targets. He stated that he expects this metric to continue its overall upward trend for several years. Mr. Nieboer also noted that the small drop from the previous quarter is an expected seasonal variation and that it has started to improve.

Mr. Nieboer stated that the FERS full matching rate will decline slightly over time as the industry standard method of capturing this value excludes those not participating. Additionally, he stated auto-enrollment means that more individuals are included in participation rates, but those auto-enrolled are enrolled at three percent instead of the five percent level the metric is evaluating.

Mr. Long noted that the Agency's Strategic Plan has changed from what the Board saw last year.

Chairman Kennedy highlighted that the Best Place to Work ranking has a continual downward trend for the past two or three years.

Mr. Long acknowledged the trend and noted that the organization is going through a significant amount of change and that Ms. Goethe and her team are leading initiatives designed to get the Agency to a better posture.

b. Project Activity Report

Mr. Stephen Huber, Portfolio/Project Delivery Manager in the Office of Enterprise Planning, provided an update on the state of the Agency's projects. See "FRTIB Key Activity Report" (attached). Mr. Huber explained that initiatives report green when the Agency expects the initiative will be completed on time and within budget; yellow when the initiative is behind schedule, over budget, but can recover; red if the initiative is behind schedule, over budget and intervention is needed; black means the initiative has not yet been baselined, but still planning; and blue means the initiative is complete.

The two-factor authentication project under the enhancing information security and operations portfolio is reporting yellow but trending green, and is expected to be completed by next quarter. Mr. Huber notes that all FRTIB users have been issued PIV cards and are using those PIV cards to access the FRTIB network.

Mr. Huber noted that Splunk and security monitoring are reporting yellow but also trending green, as the hardware has been received and will be installed in the future. He also noted that the execution phase for DSUB and Thriftline has started under the Blended Retirement Portfolio. The Agency has identified a solution for Thriftline that will increase capacity and is expected to be implemented in the summer.

Finally, Mr. Huber noted that the Agency is planning to see movement on initiatives in the Great Place to Work portfolio and the Enhancing Information Security and Operations portfolio.

Mr. Long stated that the Great Place to Work portfolio ties into Chairman Kennedy's statement regarding to the Great Place to Work metrics downward trend.

4. Audit Remediation Metric.

Ms. Beemer provided a report on the Audit Remediation Metric. See "Audit Remediation Metric" (attached). Ms. Beemer noted that the first slide shows total outstanding audit sub-recommendations. She anticipates that number staying relatively level until the second quarter, when she expects the number of reports to increase.

Ms. Beemer presented the closure rates of sub-recommendations, noting that only four of the twelve that were scheduled to close actually closed. She stated that some of the closure reports came to the Office of Enterprise Risk Management (OERM), but they were returned in order to have some additional work. In others, the work proposing the audit recommendation was closed. She stated these generally related to IT-related recommendations.

Ms. Beemer also pointed out the variation in closure rates. She stated that the Agency is moving towards a process that will include having our major vendors involved in planning the corrective actions and also determining when we can expect closure. Ms. Beemer stated she expects an improvement in the closure rate due to these factors.

Chairman Kennedy asked about whether Quarter 1 slippage will result in a spike in Quarter 2.

Ms. Beemer responded that the primary emphasis in Quarter 2 will be switching over to the particular sub-recommendations that have been identified by the Department of Labor (DOL) for closure, which will be reported later in her presentation.

Ms. Beemer noted that four audit reports were provided. The first report looked primarily at making sure withdrawals and debt payments on proper participant authorizations comply with FERSA and that the correct amounts are paid. See "Performance Audit of the Thrift Savings Plan Withdrawals Process" (attached). She noted that four prior year recommendations were closed, but that there was one new finding. Ms. Beemer also pointed out that as this closed, the Agency now has another withdrawal audit underway.

Next, Ms. Beemer discussed the second report, which primarily looked at the Agency's procurement activities and the determination of administrative expenses. See "Performance Audit of Certain Thrift Savings Plan Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff" (attached). She noted there were two new recommendations, and one recommendation was closed. She expects the two open recommendations to close soon, once related procedures are finalized.

Ms. Beemer then presented information from the third report. See "Performance Audit of the Thrift Savings Plan Account Maintenance Process" (attached). She noted this audit reviewed the money processes, such as contributions, daily valuation, revenue, fund balances, and adjustments. She stated this audit has a recommendation relating to defining procedures, which is also near completion and she expects will be approved shortly. The final report is the "Performance Audit of Thrift Savings Plan investment Management Operations" (attached), which contains no new findings.

Ms. Beemer noted that the pace of audit remediation has been slow, citing to the large amount of audit activity. For FY 2016, eight audits still need to be completed and that DOL requires completion by May. She also noted that some of the audits reported as complete from FY 2015 are starting again. Finally, FY 2017 audit activities have not started.

Mr. Long notes that the audit closure rate is, in his view, unacceptable. He then states that five of the six new audit findings are already closed according to the Agency, but that DOL and KPMG still have to come back and verify. Finally, he states that the large number of audits is a contributing factor to the amount of stress in the organization.

5. Federal Information Security Modernization Act (FISMA) Performance Audit.

Mr. Henry Creque, Auditor from the Office of Enterprise Risk Management, started by providing background on FISMA. Mr. Creque stated that FISMA encompasses three sections: the Chief Information Officer metrics, the Senior Agency Official for Privacy metrics, and the Inspector General metrics. Mr. Creque noted that FY 2016 was the first time the Agency reported under the Inspector General metrics. He also noted that the Agency does not have an Inspector General, so the

Agency contracted with Ernst & Young (E&Y). Mr. Creque stated that FY 2016 provides a baseline for the Agency, since it was our first ever independent assessment and this will be an annual requirement. Mr. Creque stated the annual audit will begin every year in May and report out around November of each year. Finally, Mr. Creque noted that the Agency has already taken corrective action steps to close findings in this audit.

Mr. Werner Lippuner from E&Y provided a report on the FY 2016 FISMA performance audit. See "Fiscal Year (FY) 2016 Federal Information Security Modernization Act (FISMA) Performance Audit" (attached). Mr. Lippuner noted that the audit was focused on FY 2016, and that the Agency has continued to strengthen the information security posture since the audit closed. Mr. Angel Contreras, also of E&Y, stated E&Y was hired to assess the information security posture of FRTIB as it related to the FISMA Inspector General (IG) metrics. Mr. Contreras noted that the Inspector General metrics are set forth by the Department of Homeland Security each year, which means there are slight changes every year to those metrics.

Mr. Contreras then presented the eight FISMA IG metrics: risk management; the establishment and procedures to validate the system inventory; contractor systems; configuration management; access management; security and privacy training; information security continuous monitoring program; incident response. Finally, he discussed contingency planning.

6. Forecast of Administrative Expenses.

Mr. Nieboer and Mr. Michael Jerue, Statistician from the Office of Enterprise Planning, presented the forecast of administrative expenses. See "Simulation-Based Forecasts of Administrative Expense" (attached). The forecasts required the creation of a participant behavior model and an asset return model paired with simple assumptions for budget growth. Mr. Jerue forecasted administrative expenses through 2030 at the 5th, 25th, 50th, 75th, and 95th percentiles. Mr. Jerue noted that the forecasting shows that if the FRTIB budget grows at random rates between 5 to 10 percent annually, the most likely outcome (at the 50th percentile) is that gross administrative expenses will remain slightly below 5 basis points from present through 2030.

7. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:40 a.m. for executive session.

At 12:35 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 Kennedy adjourned the meeting at 12:35 p.m.

MOTION: That this meeting be adjourned.



**Dharmesh Vashee
Acting Secretary**

Attachments

1. Thrift Savings Fund Statistics
2. January 2017 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB Performance Measurement Report: 1st Quarter Fiscal Year 2017
4. FRTIB Key Activity Report
5. Audit Remediation Metric
6. Performance Audit of the Thrift Savings Plan Withdrawals Process
7. Performance Audit of Certain Thrift Savings Plan Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff
8. Performance Audit of the Thrift Savings Plan Account Maintenance Process
9. Performance Audit of Thrift Savings Plan Investment Management Operations
10. Fiscal Year (FY) 2016 Federal Information Security Modernization Act (FISMA) Performance Audit
11. Simulation-Based Forecasts of Administrative Expense