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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

February 26, 2018

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on February 26, 2018, 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; Ravindra Deo, Executive Director; Megan G. Grumbine, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer and Acting Chief Technology Officer; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; James Courtney, Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Sean McCaffrey, Chief Investment Officer; Tee Ramos, Director, Office of Participant Services; Renée W. Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Officer to the Executive Director.

1. Approval of the Minutes of the January 22, 2018 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the January 22, 2018 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 22, 2018 be approved.

2. Monthly Reports.

Mr. Deo gave opening remarks, including a brief summary of the agenda and an introduction of the Agency's new Chief Investment Officer, Sean McCaffrey, and noted a recent ceremony held at the Pentagon to recognize the successful launch of the Blended Retirement System.

a. Participant Activity Report.

Mr. Ramos began his remarks by mentioning recent news reports involving MetLife and failures concerning its financial controls. Mr. Ramos stated that MetLife confirmed to the Agency, in writing, that TSP participants were not affected by the failures.

Mr. Ramos then moved to the discussion of the monthly Participant Activity Report. See "Thrift Savings Fund Statistics" (attached). Mr. Ramos noted that withdrawals numbers appeared inflated because the report shows an annual projection based on January's numbers. January typically sees a spike and the annual projection is not seasonally adjusted; therefore, there has not actually been a large increase in withdrawals.

Mr. Ramos stated that the FERS participation and Uniformed Services participation rates rebounded in January and are back up to all-time highs of 90.3 percent and 49.3 percent, respectively. Blended Retirement was implemented smoothly; by the end of January there were 87,000 opt-in participants and currently the number is up to 150,000 opt-in participants. Mr. Ramos noted a surge of hardship withdrawals associated with recent disasters. Mr. Ramos stated that the contact centers were struggling with high call volume due to seasonal factors, recent market volatility, and hazardous weather.

b. Monthly Investment Performance Report.

Mr. McCaffrey reviewed the monthly Investment Performance Report. See "January 2018 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey reported that for the month of January, performance for the F, C, S, and I Funds was in line with the benchmark.

Mr. McCaffrey reported that strong fourth-quarter earnings and a solid economic outlook drove stocks higher, both in the United States and internationally, and that the prospects for future inflation caused U.S. interest rates to move up. Mr. McCaffrey noted that the C Fund and S Fund benefited from the positive economic outlook, while the I Fund was boosted by a weaker dollar. Higher interest rates caused losses in the F Fund. Through close on Friday, February 23, 2018, equities remained in a loss position. The C Fund lost 2.54 percent; the S Fund is behind by 1.93 percent; and the I Fund was down by 3.90 percent. The F Fund returned -1.00 percent through Friday's close.

Mr. McCaffrey then discussed the assets in the Plan. Mr. McCaffrey noted that the L Funds represent more than 20 percent of total TSP assets. The size of the C Fund also now matches the G Fund. Mr. McCaffrey then discussed interfund transfers, noting more than 1.4 billion in participant-driven transfers into the I Fund in January, which was the largest amount of participant transfers on an absolute basis.

c. Legislative Report.

Ms. Weaver reported that earlier in February, the House passed HR 4924, a bill amending the Congressional Accountability Act. The bill adds a clause to the Plan's anti-alienation provision to allow garnishment from a member's TSP account if a member reaches a settlement in a sexual harassment claim.

Ms. Weaver noted that earlier in the month, Congress reached a budget deal that affected the debt ceiling, so the G Fund has been fully restored. Ms. Weaver then discussed the President's budget and stated that it contained a number of provisions that affect federal retirement, including proposed changes to the G fund interest rate.

In response to a question from Board Member Jasien about the timeline for the G Fund adjustment, Ms. Weaver replied that if there is a budget resolution, it would be considered in mid-April and the proposal could be included in the budget resolution. If there is no budget resolution, the G Fund could come up as a standalone bill, or in an appropriations bill.

In response to a question from Board Member Bilyeu about other provisions affecting Federal employees, Ms. Weaver discussed various proposed changes including an increase in the contribution that a FERS employee pays to the defined benefit portion of his/her retirement plan, eliminating the COLA for current FERS defined benefit retirees and reducing the COLA for CSRS employees, eliminating the annuity supplement for FERS retirees who retire before age 62, and changing the calculation for a defined benefit from a high-3 salary measure to a high-5 salary measure.

3. Quarterly Reports.

d. Quarterly Performance Measurement Report.

Geof Nieboer, Chief of Business Intelligence in the Office of Enterprise Planning, presented the Board with the FY 18 First Quarter Key Performance Indicator report, noting that the brief was given only by exception. See "FRTIB Performance Measurement Report: 1st Quarter Fiscal Year 2018" (attached). The first metric briefed was the Agency's FISMA score. The goal was to achieve the "Defined" level in 6 out of 7 domains. However, the Agency remained at an "Ad Hoc" level across all 7 domains.

Mr. Nieboer then discussed the Employee Skills Index, the Employee Engagement Index and Best Places to Work ranking. All three metrics failed to reach the desired threshold. Mr. Nieboer mentioned that 2017 was a difficult year for the Agency due to leadership turnover and reorganizations, and noted that the Agency has begun a series of activities, including workforce skills management, enhanced communication, and change management activities, to improve these scores.

The next metric discussed was the F, C, S, and I Fund Investment metric which tracks the timing of daily investment actions with BlackRock. There were three days where the Agency did not receive trade confirmations within the established timelines due to a software upgrade. However, the trades themselves were posted and received appropriately.

Mr. Nieboer then discussed a group of metrics related to the Agency's contact centers, stating that the phone call response rate and phone call abandonment rate did not meet thresholds. Mr. Nieboer then noted that the budget execution rate of 78.49 percent was above the threshold but below the target rate. Mr. Nieboer commented that this is not unexpected in the first quarter of the fiscal year and is not a concern at this point.

Mr. Nieboer concluded by noting that the Agency was between targets and thresholds for the FERS Participation Rate, 1 Year FERS Post-Separation Retention Rate, and the FERS Full Matching Contribution Rate metrics. Mr. Nieboer noted that the small declines in the Participation and Full Matching Contribution Rates corresponded with the small number of participants who reached their contribution limit prior to the end of the year, and that they have already seen this number rebound in January. Mr. Nieboer stated that the retention rate continues to improve, and that the Agency failed to meet the target because the Agency has increased the target for this fiscal year.

Board Member Jasien noted that some of the metrics missed the mark considerably, and asked for comment from Mr. Deo on some of the more serious gaps. Mr. Deo began by discussing the FISMA metrics and noted some of the challenges the Agency faced included changes within the Office of Technology Services (OTS) and the way the FISMA metrics are measured and scored. Mr. Deo commented that because FISMA scores measure an entire fiscal year, changes that are implemented during the audit period do not receive credit. Regarding the contact center metrics, Mr. Deo noted that the contact centers are answering more calls than ever and that the contact centers have significantly increased their capacity. Mr. Deo stated this was a particularly heavy time for call volume, and that the Agency had increased call handle time due to an effort to validate participants' e-mails and phone numbers.

Chairman Kennedy inquired about the Employee Skills Index, the Employee Engagement Index and Best Places to Work ranking and asked about the culture at TSP. Mr. Deo acknowledged that individuals were not feeling positive at the time the FEVS survey was conducted and stated that the Agency is working with the Centers for Organizational Excellent and FMP to improve these scores. Mr. Deo mentioned that leadership is working on improving the way it communicates with the Agency.

e. Project Activity Report.

Stephen Huber, the Enterprise Portfolio Management Chief in the Office of Enterprise Planning, presented the Board with the Agency's Project Activity Report. <u>See</u> "FRTIB Key Activity Report" (attached). Mr. Huber reported that the Data Loss Prevention project has been completed, that the Enterprise Data Strategy project is trending behind schedule, and that the Agency completed the first phase of the Enterprise Space Management project and has now begun the next phase of the project, expected to be completed by the third quarter of Fiscal Year 2018.

4. Contact Centers.

Clayton Lee, Supervisory Contact Center Specialist in the Office of Participant Services, presented the Board with an update on the contact center's post-modernization operating status. See "FRTIB Contact Center Presentation" (attached). Mr. Lee stated that as a result of a recently completed accelerated IT project, the Agency has modern operating systems, a robust and secure IT environment, and has improved its capacity and is receiving more calls than ever before.

Mr. Lee then noted that the contact centers are currently in their peak season, which is from the end of December to the middle of March. Mr. Lee explained that prior to the accelerated IT project, some callers were unable to connect and therefore were not accounted for under earlier call volume measurements. This is a newly discovered issue that affected the Agency's ability to perform accurate modeling. In response to a question from Chairman Kennedy about the impact of Blended Retirement on call volume, Mr. Lee responded that the impact was low.

Mr. Lee then stated that the Agency had made the choice to prioritize IT security and, as a result, customer service was impacted. As an example, Mr. Lee cited increased call handle time, which occurred as a result of an Agency effort to validate participant information. Mr. Lee noted that increased call time coupled with peak season call volume negatively impacted the contact center's service levels.

Mr. Lee stated that e-messaging volume has increased by about 80 percent during peak season and that increased call volume has impacted the Agency's ability to respond to e-messages. Mr. Lee then discussed increases in abandoned calls and call wait time, noting that the Agency was not meeting its service levels. Mr. Lee reported that to prepare for Blended Retirement, the call center increased their staff by 15 percent and subsequently increased staff by an additional 15 percent to prepare for increased call capacity.

Mr. Lee stated that the Agency is working to improve its service levels by further increasing staffing, implementing a workforce management tool, implementing technology refinements, and offering increased self-service options online. In response to a question from Chairman Kennedy about when the Board could expect meaningful improvement in service levels, Mr. Lee stated that improvement will come in part due to seasonal changes which will give the Agency time to add staff. Mr. Lee estimated that it would take at least three to four months to see improvement.

Board Member Jones asked for further information on increases in the contact center's capacity, pointing out that preparations for Blended Retirement uncovered an unknown deficiency and inquired why the Agency was unaware of this issue. Mr. Deo responded that the Agency is investigating, and that the Agency's customer satisfaction rating remains high. Mr. Ramos stated that the Agency is working with its technology partners to better understand the issue and why the Agency was not aware of the deficiency.

In response to a question from Board Member Jasien about attrition rates at the contact centers, Mr. Lee responded that the attrition rate is currently 40 to 45 percent, and noted that in the industry, other contact centers have lower attrition rates. Board Member Jasien commented that the issues with the abandonment rate and wait time may affect the attrition rate and Mr. Lee replied that the Agency was looking into issues with agent fatigue. Mr. Lee stated that the Agency is working to increase staff in the contact centers to numbers in the high 300 range to the low 400 range from its current numbers in the 280s.

Board Member Jasien inquired if there was a way to provide educational information during the call wait time. Mr. Courtney said that it was possible and Mr. Ramos replied that his office would take Board Members Jasien's suggestion under consideration.

5. Office of Enterprise Risk Management Annual Report.

Mr. Ahuja presented the Office of Enterprise Risk Management (OERM) Annual Report. See "Office of Enterprise Risk Management Report Presentation" (attached). Mr. Ahuja began by discussing OERM's functional statement, the Office's organizational structure, accomplishments from the past year, and planned activities for the upcoming year.

Mr. Ahuja discussed OERM's accomplishments from the prior year. Mr. Ahuja stated that an Agency-wide Enterprise Risk Assessment had recently been completed and based on the risks identified, OERM, in conjunction with other Agency offices, has started developing risk treatment plans and risk appetite statements for the Agency's "Top Five" risks. Mr. Ahuja stated that OERM has also facilitated Agency efforts to finalize 65 policies and procedures. Mr. Ahuja noted that OERM is continuing to implement its internal controls program and is performing internal control reviews of selected key processes for five Agency offices. Mr. Ahuja stated that OERM continues to support external audits, currently supporting 23 external audits and reviewing 68 closure packages in the last 6 months.

Mr. Ahuja then discussed internal audit activities, noting that the Agency recently initiated the travel charge card audit, awarded an audit co-sourcing contract to supplement internal audit efforts, and issued the FISMA audit report with assistance from Williams Adley, an audit firm. Regarding anti-fraud activities, Mr. Ahuja noted that Agency is continuing to track potential incidents, focusing on prevention and detection activities.

Looking ahead through 2018, Mr. Ahuja stated that OERM will continue to support external audit and streamline the audit process. Regarding enterprise risk, OERM will continue to work on risk treatment plans and risk appetite statements and will provide the Board with an update in the middle of the year. For internal controls, OERM will continue to conduct internal control reviews and well as fraud risk assessments. For internal audit, OERM will continue to work with Agency offices to support Board-approved audits and provide results to the Board.

Mr. Ahuja concluded by stating that OERM's intention is to support risk-based decision-making across the Agency and to move up on the maturity scale, noting that the Agency was currently at Level 2. In response to a question for Chairman Kennedy about when the Agency could reach Level 5 maturity, Mr. Ahuja responded that the Agency would not be able to reach that level of maturity for another couple of years.

6. <u>OTS Annual Report.</u>

Ms. Tosini presented the Office of Technology Services' (OTS) Annual Report. <u>See</u> "Office of Technology Services Annual Report Presentation" (attached). Ms. Tosini began by sharing OTS' functional statement, organizational structure, accomplishments over the last year, and plans for 2018.

Ms. Tosini reported that OTS has revised its organizational structure since the last report. The Office has increasingly focused on security by creating a position for a policy-oriented Chief Information Security Officer (CISO) and an implementation-focused Division Director of Security. Ms. Tosini then discussed the mission of the five divisions within OTS.

Ms. Tosini discussed OTS' accomplishments from Fiscal Year 2017, beginning with Blended Retirement implementation, then participant password reset, and various security acceleration projects.

Ms. Tosini stated that in Fiscal Year 2018, OTS will undertake key projects including the TSP Withdrawals project, completing a number of IT security projects, and new modernization initiatives: Trusted Internet Connection (TIC), Network Access Control (NAC), and mainframe archiving. Ms. Tosini stated that OTS will continue to work on audit remediation, focusing on critical and high-level findings. Ms. Tosini then noted that OTS will also conduct an effort to reauthorize all of the Agency's IT systems and will continue FISMA-related activities.

7. <u>Federal Information Security Modernization Act (FISMA) Performance Audit.</u>

David Harvey of Internal Audit introduced Williams Adley, the auditors who assisted with the FISMA audit for Fiscal Year 2017. <u>See</u> "Williams Adley Federal Retirement Thrift Investment Board Presentation" (attached). Tony Wang of Williams Adley thanked the Board for the opportunity to present its results and introduced Edwen Delcid and Kola Isiaq, also of Williams Adley. Mr. Delcid began his presentation by giving a general overview of the Fiscal Year 2017 audit. Mr. Delcid explained that the overall objective was to determine the effectiveness of the Agency's information security program. The testing examined both Agency-level and system specific controls, and focused on four of the Agency's 20 systems. The audit period covered October 1, 2016 through September 30, 2017.

Williams Adley used two tools to measure the effectiveness of the Agency's information security program: the Inspector General (IG) metrics and the IG Maturity Model. Mr. Delcid explained that the IG metrics align with the five NIST cybersecurity functions and contain seven underlying domains. Mr. Delcid noted that the IG metrics have gone through a few changes, adding domains and focusing on evaluating risk as a whole throughout the reporting period.

Mr. Delcid then discussed the IG maturity model, which is broken out into five levels: Ad Hoc, Defined, Consistently Implemented, Managed and Measurable, and Optimized. Mr. Delcid stated that the goal is to reach Level 4 or "Managed and Measurable" and noted that this is the level at which an Agency is determined to have an effective information security program.

Mr. Delcid explained that during the Fiscal Year 2017 audit, the auditors identified a number of control deficiencies related to people, process and technology across all domains. As a result, the auditors determined that the Agency was at Level 1 or "Ad Hoc" for all 7 domains and that the Agency has an ineffective information security program.

Mr. Delcid reported that the auditors met with various key stakeholders and management to determine the causes of the conditions revealed by the audit. The auditors determined that while there was a concerted effort to incorporate NIST guidance into policies and procedures, the policies and procedures lacked tailoring to the Agency's environment. They also determined that there were inadequately defined responsibilities between the Agency and third-party contractors, and a focus on addressing individual findings rather than root causes and larger issues.

Williams Adley had two recommendations: first, that the Agency clearly define an organization-wide risk based information security program that is tailored to its IT environment and risks, and second, that the Agency reevaluate its existing governance structure to ensure appropriate oversight and monitoring over its information security program.

Ms. Tosini then discussed the Agency's strategy to strengthen its FISMA posture. Ms. Tosini noted that there are three parts to the FISMA assessment: the independent assessment, risk management, and the CIO/CTO assessment. Ms. Tosini noted that over the last year, the Agency has focused on modernizing its infrastructure which has led to improved risk metrics. Going forward the Agency will focus on policies, procedures, and processes.

Ms. Tosini then discussed the Agency's plan for Fiscal Year 2018. See "FISMA Update Presentation" (attached). The plan has three elements: continue implementing security enhancements, define an organization-wide risk-based information security program, and reevaluate and strengthen governance structures. Ms. Tosini noted that while the Agency has policies, procedures, and processes in place, they are not holistic and do not address all the FISMA domains. The Agency's goal is to reach the Level 2 or "Defined" Level for all domains by the end of Fiscal Year 2018, which would be reflected in the Fiscal Year 2019 audit. In Fiscal Year 2019, the Agency plans to reach the Level 3 or "Consistently Implemented" Level for all domains, which would be reflected in the Fiscal Year 2020 audit.

Ms. Tosini stated that while the Agency plans to work across all domains over the next fiscal year, the Agency has prioritized the domains by examining the Agency's top enterprise risks, existing audit findings, and ease of implementation. The domains have been prioritized in the following order: Configuration Management, Identity and Access Management, Incident Response, Contingency Planning, Information Security, Continuous Monitoring, Risk Management, and Security Training.

Ms. Tosini also discussed key program activities for addressing the FISMA assessment including efforts to undertake a risk-based assessment of the Agency's priorities, treat each FISMA domain as a stand-alone project, customize a standard set of NIST controls for the Agency, review FISMA audit issues for insight into Agency gaps, and ensure that both the Agency and contractor personnel are trained and following new processes. Ms. Tosini noted that it is important to ensure that contractors and key partners are working together. To achieve this, the Agency is enhancing contracts with IT partners, putting the necessary tools and processes into place, and instituting joint forums for oversight, monitoring, and decision-making between the Agency and contractors.

8. Blended Retirement Update.

Tanner Nohe, Project Manager for the Blended Retirement project, provided a Blended Retirement update. See "FRTIB Blended Retirement Update Presentation" (attached). Mr. Nohe noted that there are over 119,000 Blended Retirement participants. Approximately 107,000 are activity duty military who had existing accounts, and about 13,000 are brand new accounts, primarily comprised of reserve members. Mr. Nohe explained that this was a function of payroll frequency. Active duty uniformed service members get paid once a month, but reserve members are paid more frequently.

Mr. Nohe noted that there are about 19,000 Uniformed Services members who are receiving match today, and noted that most are of them are reserve members as well. Mr. Nohe informed the Board that the Agency is in the process of closing the Blended Retirement project and moving it to steady state operations.

9. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 10:39 a.m. for executive session.

At 11:13 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 11:13 a.m.

MOTION: That this meeting be adjourned.

Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. January 2018 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB Performance Measurement Report: 1st Quarter Fiscal Year 2018
4. FRTIB Key Activity Report
5. FRTIB Contact Center Presentation
6. Office of Enterprise Risk Management Report Presentation
7. Office of Technology Services Annual Report Presentation
8. Williams Adley Federal Retirement Thrift Investment Board Presentation
9. FISMA Update Presentation
10. FRTIB Blended Retirement Update Presentation