



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 29, 2019

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 29, 2019, at 8:30 a.m., Eastern Time. The meeting was open to the public at the Board's offices at 77 K Street, N.E. In attendance were Dana K. Bilyeu of Oregon (by telephone), member; Ronald D. McCray of Texas (by telephone), 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; Renée C. Wilder Guerin, Director, Office of Enterprise Planning; Kimberly A. Weaver, Director, External Affairs; Susan Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; Tee Ramos, Director, Office of Participant Services; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Technology Officer; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the March 25, 2019 Board Member Meeting.

Following brief opening remarks, Chairman Kennedy entertained a motion for approval of the minutes of the March 25, 2019 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 March 25, 2019 be approved.

2. Monthly Reports

Mr. Deo gave opening remarks, including a brief summary of the agenda for the meeting.

a. Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Mr. Ramos stated that the TSP saw a large volume of participants rolling funds into their individual TSP accounts. Approximately 3,500 individuals rolled 132 million dollars into TSP accounts in March. Member Jasien inquired as to the impetus for more participants rolling funds into their TSP accounts. Mr. Ramos and Mr. Courtney explained that in February 2019, 102,000 participants received an annual TSP statement in the mail with an informational insert explaining their option to roll funds into their TSP account, and also describing the TSP's low fees, convenience, and simplicity. This informational insert likely caused the spike in account roll-in activity.

Mr. Ramos also noted that the TSP now offers a voluntary two-factor authentication feature for online TSP login. This provides additional security and better protects the privacy and finances of participants and beneficiaries.

b. Legislative Report

Ms. Weaver noted that Senators Merkley and Hassan requested that the Government Accountability Office conduct a study relating to the TSP portfolio's exposure to risk from climate change and what measures can be taken to reduce that risk.

Additionally, H.R. 1994 would allow penalty-free withdrawals made in connection with childbirth or adoption, and would also raise the Required Minimum Distribution age from 70 and a half to 72.

c. Monthly Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "March 2019 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for the month of March, performance for the F Fund was in line with the Fixed Income Index and performance for the C Fund was in line with the Large Cap Index. Performance for the S Fund was behind benchmark by 4 basis points, primarily as a result of securities sampling. Performance for the I Fund was ahead of the International Index by 8 basis points, primarily due to tax effect.

For the year to date, the F, C, and S Funds are in line with benchmarks. The I Fund performed 8 basis points better than the International Index, primarily attributable to tax effect.

Amidst reports of slowing global growth, stocks still found some support from continued optimism about trade talks and a belief that the Federal Reserve is unlikely to hike interest rates in 2019. An absence of any serious inflation threat helped support this view. Large-cap stocks rose across U.S. and international developed markets, boosting the C Fund and the I Fund, though International stock returns to U.S. investors were muted by the dollar's rise. Losses in U.S. small- and mid-cap stocks led to the S Fund's decline. Fixed income investors drove Treasury yields lower, helping the F Fund to move higher.

Mr. McCaffrey explained that for the month of April to date, stocks performed well. The C Fund gained 3.83 percent; the S Fund is up 3.64 percent; the I Fund by 2.54 percent; the F Fund by 0.02 percent.

Mr. McCaffrey also reported class action settlements for the fourth quarter of calendar year 2018. There were 63 claims open at the start of the quarter. Eight claims were opened during the quarter. A total of 14 were closed, 3 of these due to Administrator action. One claim was settled in the C Fund for 25,604 dollars and ten

claims were settled in the S Fund for a total of 760,977 dollars. At the end of the quarter, 57 claims remained open. For calendar year 2018, twenty-four claims were settled for 1,177,485 dollars.

d. Motion to Reaffirm Fund Management Practices

Chairman Kennedy entertained motions to reaffirm current G, F, C, S, and I Fund investment policies. The Board members made, seconded, and adopted the following recommendations by unanimous vote:

MOTION: That the Board reaffirm the current G Fund policy of investing solely in short-term maturities without change.

MOTION: That the Board reaffirm the current F, C, S, and I Fund investment policies without change.

3. External Audit Report

Mr. Brack Boone, Senior Auditor, presented the Audit and Security Review. See "Audit Status/Security & Remediation Status" (attached). Mr. Boone noted that there are 21 external audits in various stages of completion. Of the 21 external audits, 10 have been completed, and 7 are in progress. An additional 4 audits will be initiated this year. He anticipates that 20 of these 21 external audits will be completed this fiscal year, which will be a new record high for the Agency. The FISMA audit will remain ongoing at the end of the fiscal year. Mr. Boone further advised on the status of FRTIB's open and closed audits as described in the written status report.

Mr. Deo added that the Agency was scheduled to close 33 audits in the first quarter of FY2019, but far outpaced schedule and closed 80 audits. In the second quarter, only 23 were closed of a scheduled 31. The Offices had completed work for the remaining 8 audits, but the Office of Enterprise Risk Management did not find the documentation sufficient to close the findings. Accordingly the Agency considers these findings still open.

Mr. Deo estimated that external auditors will close approximately 40 audits next quarter, which would put FY 2019 auditor closures at the highest rate in the last five years.

Mr. Deo noted that with respect to FRTIB's CVSS scores, critical vulnerabilities declined from 13 to 9, and of the 9 open findings, all 9 have seen the immediate vulnerability addressed, but work is ongoing to close the audit. Similarly, high vulnerabilities declined from 87 to 45. Moderate, low, and "planning" vulnerabilities have increased as higher level threats were downgraded. A DHS NCATS assessment found one medium vulnerability on an FRTIB system, which was resolved within 20 days.

4. Quarterly Budget Report

Ms. Crowder gave a presentation on the FY 2019 budget. See "FRTIB FY 2019 2nd Quarter Budget Review" (attached). Ms. Crowder noted that FRTIB's budget is 88 percent in alignment with target; the second quarter target was 261.2 million dollars, of which 228.8 million dollars have been executed.

5. Office of the Chief Financial Officer Annual Report

Ms. Crowder also presented the Office of the Chief Financial Officer Annual Report (OCFO). See "Office of the Chief Financial Officer Annual Report" (attached). Ms. Crowder described the role OCFO plays in managing the daily transactions of 5.3 million participants who have approximately 550 billion dollars in investments in the TSP. She also reviewed the organizational structure of OCFO, before highlighting several recent accomplishments, which included executing 614 contracts for approximately 109 million dollars, bringing the Recordkeeping Services Acquisition (RKSA) acquisition through the minimum qualification milestone, implementing a new contracting policy and procedures (T-FAS), and launching the cash management and investment operations system to combine cash flow, investment, and asset management interfaces into a single, modern system.

6. Internal Audit Report

Mr. Virgil Savage, Acting Auditor-in-Chief, presented a report on internal audits. See "Internal Audit Presentation" (attached). Mr. Savage noted that FRTIB completed two internal audits in calendar year 2019 to date: (1) procurement and contract management, and; (2) vendor management. The procurement and contract management resulted in 3 findings and 3 recommendations. The vendor management audit resulted in 8 findings and 8 recommendations. There was an internal concurrence with all findings across both audits, and the audits are now closed.

Mr. Savage and Mr. Deo explained that the Agency is currently scheduled to complete an improper payment monitoring audit in 2019, but that this audit may be best served by deferring until FRTIB selects its new Auditor-in-Chief. The new Auditor-in-Chief will evaluate and prioritize an improper payment monitoring audit in relation to other audits. Accordingly, the audit would likely be deferred until 2020 or 2021, depending on the assessment provided by the new Auditor-in-Chief. The assessment and prioritization would likely occur at or before the December 2019 Meeting of the Board Members. In the interim, FRTIB would conduct an internal audit of fixed assets.

Mr. Savage noted that the internal FISMA audit remains on track for completion in December 2019. Mr. Savage also congratulated OCFO on the implementation of new contracting policies and procedures, T-FAS, which resolved the root causes of several audit findings.

Chairman Kennedy entertained motions to conduct an audit of the agency's fixed assets, and defer completion of the improper payment monitoring audit. The Board members made, seconded, and adopted the following recommendations by unanimous vote:

MOTION: That the Board shall conduct an audit of fixed assets.

MOTION: That the Board shall defer conducting an improper payment monitoring audit until it has received the evaluation and recommendation of the incoming Auditor-in-Chief.

7. Annual Financial Report

Mr. Thomas Rey of CliftonLarsonAllen (CLA) presented an overview of the 2018 financial statement audit. See "Federal Retirement Thrift Investment Board – Thrift Savings Fund" (attached). Mr. Rey stated that CLA's independent auditor's report resulted in an unmodified "clean" opinion that the Agency's financial statements are presented fairly, and in all material respects, in conformity with the U.S. Generally Accepted Accounting Principles (GAAP). CLA issued a Letter on Internal Control Over Financial Reporting. No material weaknesses were identified, but 2 significant deficiencies were identified. Mr. Rey noted that the 2 significant deficiencies included the following: (1) System Authorizations and Continuous Monitoring and (2) Plans of Action and Milestones Remediation. Other control matters which were neither material weaknesses nor significant deficiencies were identified and raised with FRTIB – 11 relating to IT matters, and 2 relating to financial policy and reporting.

8. Department of Labor (DOL) Presentation

Mr. Michael Auerbach of the Department of Labor, Employee Benefits Security Administration (EBSA), presented an overview of the fiscal year 2019 fiduciary oversight program. Ms. Heather Flanagan of KPMG LLP presented highlights of the overall audit assessment from May 2018 to April 2019 and an overview of the new fundamental control recommendations. See "U.S. Department of Labor Employee Benefits Security Administration Fiscal Year 2019 Thrift Savings Plan Fiduciary Oversight Program" presentation (attached).

Ms. Flanagan noted that EBSA has planned 8 audits this year, 6 of which relate to IT in some fashion. Other audits include a full scope process audit of the L Funds, and an audit of the new Dallas call center. EBSA will also audit the Defense Finance and Accounting Service, which although not part of FRTIB, is a payroll service provider with which the FRTIB works.

A total of 13 audits have been finalized since May 2018. No material instances of non-compliance were reported. A total of 35 audit findings recommendations have been closed, and 38 new recommendations have been issued. There were no

instances of material non-compliance with FERSA. Of recommendations carried over from prior years, 55 remained open.

Ms. Flanagan noted that a large number of IT-related audit closures were the result of an IT restructuring that decommissioned some older infrastructure, rendering shortcomings with older infrastructure moot. Even so, IT audit recommendations accounted for 79 percent of open recommendations. The breakdown of open IT recommendations by subtype are: Computer Access and Security Controls - 29; Mainframe Configuration - 24; Mobile Device - 18; Service Continuity - 14; IT Operations Management - 12; System Enhancements and Software Change Controls - 11; Technical Security Vulnerability Assessment - 6; Participant Website Controls – 5; Remote Sites GITCs – 2; Insider Threat – 2. All but seven of these were fundamental controls.

Outside of IT, open audit recommendation by subtype are: Board Staff – 8; Withdrawals – 8; Participant Support – 7; Lifecycle Funds – 5; Loans – 3; Account Maintenance – 1; Annuity Operations – 1. Each of these was deemed a fundamental control.

Chairman Kennedy inquired whether FRTIB has shown improvement in addressing older audit findings. Ms. Flanagan explained that there was improvement. Ms. Flanagan reiterated that FRTIB closed 35 audit findings, and that while most open audit tasks are 3-4 years old, a few years ago, some were 5 or more years old.

Chairman Kennedy also inquired whether the rate of audit findings opened to audit findings closed narrowed in recent years. Ms. Flanagan explained that the gap had indeed narrowed; in the recent past, there were years where findings opened far outnumbered findings closed, but reiterated that this year there were only 3 more findings opened than there were findings closed.

In response to a question from Chairman Kennedy, Ms. Flanagan noted that the recommendations contained at page 19 of the EBSA presentation stem from a KPMG industry-wide assessment and were not targeted in their nature.

Member Jasien inquired whether FRTIB employees were communicating and collaborating well with auditors. Mr. Auerbach replied that although it is common to have some tension between auditors and auditees, the working relationship FRTIB has with auditors is a good one.

9. Monthly Withdrawals Update

Mr. Tanner Nohe, Supervisory Project Manager, provided an update on the Additional Withdrawals Project. See "Additional Withdrawals Project" (attached). Mr. Nohe explained that phase 1 of the project, Installment Maintenance/Withdrawal Deadline, has completed systems testing and has moved into user acceptance testing. With respect to phase 2, post-separation withdrawals, development is 99 percent complete and will wrap up in the coming days, but systems testing is just beginning and

is only 6 percent complete. Regarding phase 3, in-service withdrawals, development is about 47 percent complete, and testing is not yet underway. Development of phase 3 should be completed by the end of June 2019, at which point testing will begin.

Mr. Nohe explained that there is only one high-probability, high-impact project risk, and that is the development of web wizards. However, the overall timeline remains unchanged. The next major milestone for the project will be proposed regulations. Draft regulations are currently circulating internally within the Agency. It is anticipated that proposed regulations will be published in the Federal Register in June 2019.

10. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:53 a.m. for executive session.

At 11:19 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 11:19 a.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. March 2019 Performance Review – G, F, C, S, I, and L Funds
3. Audit Status/Security & Remediation Status
4. FRTIB FY 2019 2nd Quarter Budget Review
5. Office of the Chief Financial Officer Annual Report
6. Internal Audit Presentation
7. CliftonLarsonAllen Review
8. U.S. Department of Labor Employee Benefits Security Administration Fiscal Year 2019 Thrift Savings Plan Fiduciary Oversight Program
9. Additional Withdrawals Project