



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

February 25, 2019

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on February 25, 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, 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; 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 January 28, 2019 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the January 28, 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 January 28, 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 highlighted that the FERS participation rate increased by a little less than 1 percent, which is lower than the typical participation rate increase in January. This is attributable to the furlough which caused several organizations to not have payrolls for January. The uniformed services active duty participation rate had a 1 percent decrease, also attributable to the furlough.

Mr. Ramos noted that the Plan experienced the typical seasonal increase in monthly payments resulting from the larger number of retirements at the end

of the last quarter and the first part of the year. Hardship withdrawals in January were up about 25 percent from last year due to the furlough. New loan requests remained about the same as last year.

b. Monthly Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "January 2019 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for the month of January, performance for the F, C, and I Funds was in line with indices. Performance for the S Fund was ahead of the benchmark by four basis points, primarily as a result of securities sampling.

Mr. McCaffrey noted that the year has gotten off to a good start for many investors. Global stocks staged a significant rally in January as U.S. monetary policy concerns eased, fourth quarter corporate earnings reports came in better than expected, and there was some optimism about trade. The C Fund and the S Fund achieved very strong gains. The I Fund's increase was reinforced by the dollar's decline. And because most U.S. Treasury debt yields moved lower, the F Fund's returns were positive.

For the year to date, the F, C, and S Funds closely tracked their respective benchmarks. Mr. McCaffrey highlighted the notable difference between the I Fund and its benchmark. BlackRock's performance does not include trading costs from the participant driven buy and sell transactions or the impact from daily L Fund rebalancing. Nor does it consider the Agency's administrative costs. On the other hand, TSP Fund return calculations incorporate all of these items. Thus, there will almost always be differences. In this particular instance, the very large L Funds rebalance into the I Fund at the time of fair value pricing led to a difference of five basis points between TSP performance and the BlackRock account performance.

For the month of February through Friday's close, the C, S, I, and F Funds are up by 3.45 percent, 5.42 percent, 2.23 percent, and 0.14 percent, respectively.

Mr. McCaffrey highlighted that the L Funds are benefitting from the positive market environment as well. Returns for all of the L Funds for January were meaningfully positive and are ahead in February month to date. In addition, January's better stock market tone brought about a reversal in the direction of interfund transfers, with funds coming out of the very conservative G Fund and the F Fund and going into riskier investments; however, it was not a full reversal of what we observed in December.

c. Legislative Report

Ms. Weaver provided an update on the legislation discussed in January, which includes five bills addressing the furlough that affect the Agency. She indicated that both the House and the Senate intend to move forward with this type of

legislation to avoid a scramble in the event of another government shutdown. She also indicated that staff is open to amending the legislation so that it is something the TSP can implement successfully. In addition, Ms. Weaver noted that a new piece of furlough legislation was introduced by Senator Bill Cassidy based on language the Agency provided. This legislation mimics 2017 hurricane relief legislation and would allow a participant to take a hardship withdrawal in the event of a furlough, avoid the 10 percent penalty on that withdrawal, spread taxation over a period of time, and pay back such amounts if desired. It is unclear at this point which furlough bill will move forward.

Ms. Weaver also highlighted the latest version of the Retirement Savings and Enhancement Act. Three provisions in this bill are of interest to the Agency. The Plan already satisfies the first two by providing (1) a lifetime income statement on the annual statements to participants and (2) a safe harbor lifetime income option through its MetLife contract. These provisions will require IRS guidance and the Agency will need to monitor that guidance to make sure the TSP is in sync with any new requirements. Finally, the bill includes a specific provision on TSP contributions for tax court judges designed to bring parity for Article I judges in terms of their retirement options. Ms. Weaver noted that implementing this change would not be problematic administratively.

Ms. Weaver noted that on February 5th, the Agency published an interim final rule which was effective immediately that allows furloughed employees to take Plan loans even though they are not in pay status. Participants could then suspend payment on that loan.

3. Quarterly Metrics Report.

Mr. Geof Nieboer, Chief of Business Intelligence in the Office of Enterprise Planning, provided an overview of the Agency's performance metrics for the 1st quarter of FY 2019. See "Performance Measurement Report: 1st Quarter Fiscal Year 2019" (attached). Mr. Nieboer noted that, with respect to the FISMA score, an annual metric, although the Agency improved the number from the prior report and achieved defined in three out of eight areas, additional work remains and is in progress to achieve the target level of performance.

Mr. Nieboer further noted that the employment skills index, best places to work ranking, and employee engagement index, all annual metrics, showed an improvement from the prior year but did not reach the desired threshold. Finally, Mr. Nieboer indicated that the FERS full matching contribution rate fell short of the desired target but noted that the results are incrementally higher than the same period last year and remain over 10 percent higher than the industry average.

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

Mr. Virgil Savage, Acting Auditor-in-Charge, introduced Tony Wang and Edwen Delcid from Williams Adley, the auditors who assisted with the FISMA audit for Fiscal Year 2018. See "Williams Adley Federal Retirement Thrift Investment Board Presentation" (attached). Mr. Delcid thanked the Board for the opportunity to present its results and began his presentation by giving a general overview of the Fiscal Year 2018 audit. Mr. Delcid explained that the overall objective was to determine the effectiveness of the Agency's information security program. A secondary objective was to look at improvements that were made within the Agency's information security program to address prior recommendations. 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, 2017 through September 30, 2018.

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 eight underlying domains. Mr. Delcid noted that, in order to move from one level to another in each domain, the Agency would need to address the majority of the requirements of the previous level.

Mr. Delcid indicated that, based on the audit findings, the Agency has not fully developed and implemented an effective, organization-wide information security program. However, he highlighted that there has been improvement since last year. In particular, the Agency has initiated a series of security assessments to identify, remediate, and monitor any risks identified and undertook multiple projects to improve the Agency's overall information security posture. As a result of these actions, the Agency moved from Level 1 (Ad-Hoc) to Level 2 (Defined) in two of the previous seven domains (Configuration Management and Identity and Access Management) and achieved level two in the new eighth domain (Data Protection and Privacy). Finally, Mr. Delcid highlighted that the Agency successfully closed 13 of the recommendations identified as part of the Fiscal Year 2016 audit.

Williams Adley presented four recommendations, all of which are focused on helping the Agency transition between the levels in each domain. Williams Adley recommended that the Agency: (1) perform a comprehensive review of the processes supporting its assessment and authorization program; (2) update existing governance documents to ensure they are consistent with current processes for privacy threshold analyses, privacy impact assessments, and incident response reporting and tracking; (3) develop and implement a process to ensure that all individuals with significant security responsibilities receive required specified training before gaining access to information systems or performing assigned duties; and (4) develop Information Security Continuous Monitoring (ISCM) strategy and its supporting policies and procedures.

Mr. Patrick Bevill, Chief Information Security Officer, presented the Agency's plan to improve its FISMA maturity. See "FRTIB FISMA Maturity Strategy" (attached). Mr. Bevill started by noting that the Agency's FISMA maturity process is

designed to be an iterative process, ensuring continuous improvement in each of the eight FISMA domains. He highlighted that the Agency successfully piloted this process for the Configuration Management domain, which achieved Level 2 as a result of these efforts. As such, the Agency plans to use this same methodology to achieve similar results in the other domains.

Mr. Bevill presented the Agency's FISMA maturity timelines, noting the efforts are segmented into 90-day, 6-month, and 1-year blocks for the eight existing FISMA domains. The Agency's goal for Fiscal Year 2019 is to be at Level 2 in all eight domains. In addition, Mr. Bevill indicated that the Agency is optimistic that it can achieve Level 3 (Consistently Implemented) in two or three domains this year. For Fiscal Year 2020, the goal is to be at Level 3 in all eight domains and the Agency believes that some could reach Level 4 (Managed and Measurable). In response to a question from Member Jasien, Ms. Tosini indicated that the Agency's long-term goal is to reach Level 4 in all domains, which is the benchmark for effectiveness.

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" (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 the Agency experienced significant success in furthering the Enterprise Risk Management Program, including putting into place a formal governance structure and formalizing risk appetite statements, and initiating internal control assessments for five of the offices. Mr. Ahuja highlighted four additional accomplishments—(1) streamlining the fraud response process in coordination with the Office of Participant Services; (2) reporting on audit findings and advising other offices on audit remediation; (3) supporting external audits; and (4) reporting on five Internal Audit engagements to the Board.

Looking ahead through 2019, Mr. Ahuja stated that OERM will continue to enhance the Enterprise Risk Management Program. OERM will provide an update to the Board in June regarding the Agency's top five risks, what the risk treatment plans were, and the success to-date of those plans. In addition, OERM will work to codify an insider threat program for the Agency. Streamlining the process for closing audit findings will continue to be a large portion of OERM's efforts. Also, the focus on fraud prevention (as opposed to fraud response) will increase. Finally, OERM will be working on a structured internal controls program to be rolled out in 2020.

In response to a question for Chairman Kennedy regarding the current maturity of the Enterprise Risk Management program, Mr. Ahuja indicated that enterprise risk management has been accepted throughout the Agency.

6. Office of Technology Services Annual Report.

Mr. Desai presented the Office of Office of Technology Services (OTS) Annual Report. See "Office of Technology Services Report" (attached). Mr. Desai began by discussing OTS' functional statement, organizational structure, accomplishments from the past year, and planned activities for the upcoming year.

Mr. Desai discussed OTS' accomplishments from the prior year. He reiterated the achievement of Level 2 – Defined in three of the eight FISMA domains. Mr. Desai highlighted that, under DHS NCATS, the Agency has had no vulnerabilities since March 2018. With respect to Binding Operational Directive 18-01 (related to email security and secure sites), the Agency achieved 100 percent compliance ahead of schedule. The Agency also completed Emergency Directive 19-01 (related to a concerted campaign against several Federal agency domains) ahead of schedule. OTS also on-boarded the following resources in 2018—DCTO, CISO, Audit Compliance and Vulnerability Branch Chiefs as well as additional security support services. Mr. Desai highlighted three additional accomplishments—(1) implementing Trusted Internet Connection; (2) opening the new Texas contact center ahead of schedule; and (3) making internal improvements including a hardware asset inventory, finalizing policies and procedures, and streamlining procurement and invoicing processes.

Looking ahead through 2019, Mr. Desai highlighted five key projects and initiatives. First, OTS will continue to work to improve FISMA maturity. Second, Continuous Diagnostics and Mitigation (CDM) will commence in partnership with the DHS. Third, a "Failover" exercise at the Virginia and Pennsylvania data centers is planned. Fourth, key modernization initiatives will be implemented and/or completed. Finally, OTS will continue to invest in its people and process maturity.

In closing, Mr. Desai noted that there has been significant positive momentum and progress in the areas of security improvements, technology uplift, and process maturity. OTS will continue its focus on cybersecurity, technology modernization, and building a high-performing organization.

7. Additional Withdrawals Project Update.

Mr. Tanner Nohe, Supervisory Project Manager, provided an update on the Additional Withdrawals Project. See "Additional Withdrawals Project" (attached). Mr. Nohe began with a reminder that the project was divided into three phases, each of which represents a different type of withdrawal. He noted that Phase 1 will now be put into production in July, along with Phase 2, instead of the end of March. This was done to allow additional time for testing. Mr. Nohe indicated that this will not affect the overall timeline and the go-live date of September 15, 2019.

Mr. Nohe reviewed the risks to the project. The risk from emergency legislation due to the furlough will remain on the risk register. However, the regulation risk will be removed as the next possible time for a shutdown is October, after this project's go-live date. Finally, the web wizard development remains a risk but Mr. Nohe does not anticipate it pushing the go-live date.

8. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 10:02 a.m. for executive session.

At 10:17 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 12:11 p.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. Performance Review – G, F, C, S, I, and L Funds
3. Quarterly Metrics Report
4. Williams Adley Federal Retirement Thrift Investment Board Presentation
5. FRTIB FISMA Maturity Strategy
6. OERM Annual Report
7. OTS Annual Report
8. Additional Withdrawals Project