



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 27, 2020

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 27, 2020, at 10:00 a.m., Eastern Time. The meeting was held telephonically and was open to the public. 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; Suzanne Tosini, Chief Operating Officer and Deputy Executive Director; Megan G. Grumbine, Board Secretary and General Counsel; Kimberly A. Weaver, Director, External Affairs; Jay Ahuja, Chief Risk Officer; James Courtney, Director, Office of Communications and Education; Sophie Dmuchowski, Deputy Director, Office of Participant Services; Sean McCaffrey, Chief Investment Officer; Susan C. Crowder, Chief Financial Officer; Vijay Desai, Chief Technology Officer; Gisele Goethe, Director, Office of Resource Management; Barbara Holmes, Chief Audit Executive; Renée Wilder Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the March 23, 2020 Board Member Meeting.

Following brief opening remarks, Chairman Kennedy entertained a motion for approval of the minutes of the March 23, 2020 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 23, 2020 be approved.

2. Monthly Reports.

Ms. Tosini, who was acting in Mr. Deo's absence, gave opening remarks, including a brief summary of the agenda for the meeting. Ms. Tosini also provided an update on the impact of the coronavirus on Agency operations and the TSP. The TSP continues to operate at full capacity with no decrease in service levels, and BlackRock, the TSP's fund manager, also continues to perform regularly.

a. Participant Activity Report

Ms. Dmuchowski reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Ms. Dmuchowski noted civilian and uniformed services active duty participation rates continue to increase. The Agency has supported TSP contractor sites to enable contractor employees to work from alternatives sites as well as maintain volunteer skeleton crews onsite, and as a result, there have been no service disruptions, impacts to service levels or disruptions to

transaction processing. Ms. Dmuchowski noted call center volume has decreased, and hardship withdrawals and loan requests have also decreased slightly.

Ms. Dmuchowski concluded by reporting the TSP halted required minimum distributions (RMDs) to participants on April 14<sup>th</sup>. In addition, the TSP continues to consider the feasibility of implementing other pieces of the CARES Act.

b. Legislative Report

Ms. Weaver reported that she has been in contact with Congressional staff, who have been working on language for the Department of Defense authorization bill, to make sure the Agency is aware of any items that may impact the TSP.

c. Investment Report

Mr. McCaffrey reviewed the monthly investment performance report. See “March 2020 Performance Review – G, F, C, S, I, and L Funds” (attached).

Mr. McCaffrey reported that BlackRock’s March 2020 performance for the F Fund lagged the Fixed Income Index by 5 basis points, primarily attributable to securities sampling; its performance for the C Fund matched the Large Cap Index returns; and its performance for the S Fund was in line with the Small- Mid- Cap Index. BlackRock underperformed the International Index by 51 basis points, primarily due to the reversal of a fair value pricing event that occurred on the last trading day of February.

For the F Fund year to date, Mr. McCaffrey reported that BlackRock underperformed the benchmark by 4 basis points, primarily due to securities sampling. Its performance for the C Fund was in line with the Index. Its performance for the S Fund lagged the Small- Mid- Cap Index by 8 basis points, primarily due to futures mistracking. Its performance for the I Fund year to date exceeded the International Index by 14 basis points, primarily due to tax advantage.

Mr. McCaffrey noted that the TSP equity funds fell substantially during March as the S&P 500 reached its recent low on March 23, and the other indices also suffered significant downturns in performance. Though the Funds ended the month well off their lows, the C Fund still finished with a 12.4 percent loss; the S Fund with a 21.4 percent loss; and the I Fund with a 13.87 percent loss. The F Fund edged lower by 64 basis points on weakness in the fixed income markets in spite of lower Treasury yields. The L Funds lost as well, mostly attributable to their equity weights, the losses ranging from 3.09 percent for the L Income Fund to 11.9 percent for the L 2050 Fund. The G Fund managed a slight gain of 11 basis points.

Mr. McCaffrey noted that the longest period ever of continuous U.S. stock market expansion recently came to an abrupt end. U.S. stock market volatility, as measured by the VIX index —reached an all-time high in its 30-year history in mid-

March. In the fixed income markets, 10-year and 30-year Treasury bond yields fell to all-time lows of 0.54 percent and 0.99 percent, respectively. Since the S&P 500 closing low on March 23, it returned almost 27 percent through Friday, April 24.

Mr. McCaffrey stated that the picture for the TSP Funds in April so far, while still very volatile, has been positive. The C Fund is ahead by 9.87 percent. The S Fund is up 9.46 percent, and the I Fund has gained 2.48 percent. The F Fund is also ahead 1.82 percent.

Mr. McCaffrey reported that March was an all-time high month for participant interfund transfers (IFT). From February 24 through March 31, approximately 7 percent of participants conducted an IFT, and 93 percent of participants were not stirred to action by the recent market turmoil. Most TSP investors stayed the course. So far in April, the volume of IFT activity had fallen significantly from the all-time IFT highs of March and late February.

Mr. McCaffrey concluded his monthly report by stating there has been an overall decline in L Fund participation for the month of March, very unusual but consistent directionally with the more than \$6 billion net outflow from the L Funds referenced in the report. These IFTs were outweighing the arrival of new auto-enrollees into the L Funds. Still, as of March 31, 25.04 percent of our TSP investors were 100 percent invested in the L Funds, compared to 24.94 percent at the end of January.

Mr. McCaffrey next made quarterly updates. He reported that an audit conducted of BlackRock's proxy voting found no exceptions to established guidelines during the 4th quarter of 2019. Mr. McCaffrey also reported on class action settlements. There were 70 claims open at the start of the fourth quarter of 2019. Twelve claims were opened during the quarter. Eighteen claims were settled in the F fund for a total of about 1.25 million dollars. One claim was closed in the C Fund due to administrator action, and one was settled for over 2.5 million dollars. Three claims were closed in the S Fund due to administrator action, and five claims were settled for a total of about 357,000 dollars. At the end of the quarter, 54 claims remained open. For calendar year 2019, settlements totaled 6,178,715 dollars.

#### d. Motion to Reaffirm Fund Management Practices

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

**MOTION:** That the Board reaffirm the current G Fund policy investing solely in short-term maturities and the current F, C, S, and I Fund investment policies without change.

### 3. External Audit Report

Mr. Brack Boone, Senior Auditor, presented the Audit Status and Security and Remediation Status Review. See “Audit Status / Security & Remediation Status” (attached). Mr. Boone noted there are 12 external audits in various stages of completion. Of the 12 external audits, one has been completed, nine are in progress, and two have been planned.

Ms. Tosini presented projected versus actual audit closures. The Agency projected closing 23 findings this quarter, but fell short at 15 closures. The Agency believes that an additional 19 findings have been closed, but will not be counted until the auditors have completed reviewing as part of audits currently in progress. In response to Member Jasien’s question, Ms. Tosini stated that she anticipated that actual closures will catch up with projected closures.

Ms. Tosini also presented the open audit recommendations by both year and, separately, by risk rating, and discussed the risk-based approach that the Agency uses to address audit findings. Chairman Kennedy asked about the open recommendations dating back to 2013 and 2014 and the Agency’s plan to close them. Ms. Tosini explained that these recommendations are often very broad and involve a number of pieces to close. Ms. Tosini also explained that often these audit recommendations are low risk, and the Agency has chosen to focus on completing higher risk-ranked recommendations. Chairman Kennedy encouraged the Agency to address these open recommendations, even if they are risk-ranked low.

### 4. Quarterly Budget Report

Ms. Crowder gave a presentation on the FY 2020 2nd quarter budget. See “FRTIB FY 2020 2nd Quarter Budget Review” (attached). Ms. Crowder noted that 251.2 million of the 294.4 million dollar target has been executed. The 251.2 million dollars represent 65 percent of the Agency’s overall fiscal year 2020 budget of 385.6 million dollars. Seventy-three percent of the 251.2 million dollars supports record-keeping operations and maintenance. In response to Member Jasien’s question, Ms. Crowder stated that the mandatory work-from-home has not impacted the Agency’s budget.

### 5. Annual Financial Report

Mr. Thomas Rey of CliftonLarsonAllen (CLA) presented an overview of the 2019 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 Thrift Savings Fund’s financial statements were presented fairly, and in all material respects, in conformity with the U.S. Generally Accepting Accounting Principles (GAAP).

CLA also issued a Letter on Internal Control over Financial Reporting. There were two significant deficiencies: 1) system authorizations and continuous monitoring, and 2) plans of action and milestones remediation. There were no material weaknesses. CLA identified several other control matters, four relating to IT and one relating to financial reporting. Chairman Kennedy suggested that CLA present to the Board in closed session if and when necessary.

6. Department of Labor, Employee Benefits Security Administration (EBSA), Presentation

Ms. Jeanne Wilson, Principal Deputy Assistant Secretary, made introductory comments. Mr. Tim Hauser, Deputy Assistant Secretary, explained EBSA's role in auditing the fiduciary management of the TSP and that EBSA's audit program is risk-based. Mr. Hauser stated that a shared area of concern for a period of years has been cybersecurity, and EBSA has seen some significant signs of improved security. In addition he noted more recent collaboration and open communication between EBSA and the Agency.

Mr. Michael Auerbach, Chief Accountant, EBSA, noted that the Agency staff and the auditors have worked cooperatively to keep the audit process going in light of the coronavirus outbreak, which included providing KPMG auditors with laptops to work remotely. He also noted that there were challenges earlier in the year with getting access to data, but the Agency and auditors resolved those issues. Finally, Mr. Auerbach noted there has been an uptick in the number of open recommendations this year.

Mr. Derek Thomas of KPMG, LLC presented highlights of the overall audit assessment from May 2019 to April 2020 and an overview of new fundamental control recommendations. See "U.S. Department of Labor, Employee Benefits Security Administration, Fiscal Year 2020, Thrift Savings Plan, Fiduciary Oversight Program" (attached).

Mr. Thomas noted that EBSA has planned eight audits for 2020, all of which have begun. Four are IT-focused, and four are process-focused. The IT-focused audits are computer access and security controls, mainframe configuration and security controls, insider threat controls, and a special IT project that focuses on certifying closed audit recommendations and the Agency's monitoring of certain risks. The process-focused audits are withdrawals, investment manager operations, annuity vendor operations, and the Board's staff. The goal is to complete all 2020 audits this fiscal year.

From May 2019 to April 2020, a total of eight audits were completed. There was one instance of non-compliance with FERSA that related to Defense Finance and Accounting Service (DFAS); no instances of material noncompliance related to the Agency. Twenty-four recommendations were closed, and 34 new recommendations were made.

Mr. Thomas expressed a concern with the number of recommendations that remain open after several years. He encouraged the Agency to focus on closing older recommendations while also considering the emerging risks. Mr. Thomas categorized the open recommendations into three categories: those open one to two years; those open three to four years; and those open five or more years. Thirty-five percent of the open recommendations are three to four years old, while 34 percent are five or more years old. Of those in the three to four year category, 74 percent are from the computer access and mainframe configuration audits. Open recommendations that are five or more years old cover a variety of IT audits. The total number of open recommendation as of mid-April is 168. This is an increase from 156 a year ago. Approximately 81 percent relate to IT audits.

Mr. Thomas then provided other considerations in light of the COVID-19 Pandemic based on KPMG's work with other clients.

In response to a question from Member McCray, Mr. Thomas explained that in doing performance audits, KPMG is not required by audit standards to use the same terminology used in the financial statement audits. Instead of using terms like "material weakness" or "significant deficiency," KPMG uses "fundamental controls" to communicate significant findings and that fundamental controls should be prioritized as if they are "material weaknesses" or "significant deficiencies." Ninety-five percent of the IT findings relate to fundamental controls.

Member Jasien stated he was pleased to hear Ms. Wilson's and Mr. Hauser's comments and vote of confidence. He also stated that he wanted to clarify with Mr. Auerbach that if there are issues with obtaining access to information that he should bring them to the Board's attention. Mr. Auerbach agreed and explained that the matter was resolved and that Agency staff was rightly protecting its information.

Chairman Kennedy reiterated Member Jasien's comments and thanked EBSA for sharing the aging report and stated that the Agency will focus on older open recommendations.

## 7. Office of Technology Services (OTS) Annual Report

Mr. Desai, Chief Technology Officer, provided the annual update of the Office of Technology Services. See "Office of Technology Services (OTS) Annual Report" (attached). Mr. Desai explained OTS' functional statement and organizational structure.

Mr. Desai highlighted OTS' accomplishments over the last 12 months. Accomplishments included successful continuity of operations at all remote sites in light of COVID-19; implementation of CARES Act initiatives and other initiatives such as money-out SMS notifications and two-factor authentication; the roll out of Windows 10 and Office 365 in addition to the roll out of the Network Access Control, which ensures

that no unauthorized devices enter the systems; and the implementation of DHS' Continuous Diagnostics and Mitigation program.

Mr. Desai noted the Agency's FISMA scores have improved from a Level 1 across all domains in 2017 to Level 3 in four domains and Level 2 in three domains in 2019. According to an independent vendor, the Agency has been rated in the top 10 percent of federal agencies in security effectiveness. Moreover, all cyber policies and procedures have been refreshed.

Mr. Desai also highlighted the status of Board priorities. The implementation of the five-year L Funds is still on track for the end of June, and the new tsp.gov website will launch in mid-July. The five percent auto enrollment will be implemented this year and the catch-up contribution project in early 2021. Mr. Desai noted additional upcoming projects, such as the POMP transition, the recordkeeping acquisition and the financial systems modernization that OTS will be assisting to continue to mature the cybersecurity environment in addition to accelerating the audit finding closures.

In response to Chairman Kennedy's question, Mr. Desai stated that OTS has the resources it needs. Mr. Desai noted that OTS has some hiring to do, but that it has filled staffing gaps and will spend resources to train staff on the new technologies. Chairman Kennedy asked Mr. Desai to keep the Board aware if OTS needs internal or external resources.

8. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 11:31 a.m. for executive session.

At 1:08 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 1:08 p.m.

MOTION: That this meeting be adjourned.

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Megan G. Grumbine  
Secretary

## **Attachments**

1. Thrift Savings Fund Statistics
2. March 2020 Performance Review – G, F, C, S, I, and L Funds
3. Audit Status / Security & Remediation Status
4. FRTIB FY 2020 2nd Quarter Budget Review
5. Federal Retirement Thrift Investment Board – Thrift Savings Fund (CLA Review)
6. U.S. Department of Labor, Employee Benefits Security Administration, FY 2020 Thrift Savings Plan, Fiduciary Oversight Program
7. Office of Technology Services Annual Report