



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

77K Street, NE Washington, DC 20002

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 23, 2018

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 23, 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; Vijay Desai, 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 March 26, 2018 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the March 26, 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 March 26, 2018 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). He noted that the uniform service active duty participation rates rose 1% and reached an all-time high of 50.8%. This included over 162,256 Blended Retirement System (BRS) opt-in participants. The abandonment rate at the contact center has significantly improved; the post-separation withdrawals rate

decreased after various increases over the last few months; and service levels improved after increasing staffing levels to meet the new demand.

Mr. Courtney presented a brief overview on the agency's efforts to reach out to BRS participants who had opted-in but had not yet made a contribution election.

Mr. Lee, from the Office of Participant Services, provided an update on the contact center. Mr. Lee stated that the contact center has normalized the phone call service rates and the average speed-of-answer at the contact center has improved. Lastly, Mr. Lee noted that the abandonment rate has been significantly reduced. Member Jasien asked how the Agency planned to monitor quality based on the fact that so many staff are new. Mr. Lee stated that there is a robust quality assurance monitoring program, and that the Agency listens to calls and ranks them on the quality of how they are handling participant-level services. There are dedicated staff who monitor calls on a periodic basis throughout the month. The monitoring staff place special emphasis on reviewing calls handled by new contact center staff.

b. Legislative Report.

Ms. Weaver reported no updates.

3. Quarterly Report

a. Investment Performance.

Mr. McCaffrey reviewed the monthly Investment Performance Report. See "March 2018 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey reported that for the month of March, performance for the F, C, and S Funds was in line with the benchmark. Performance for the I Fund was ahead of the benchmark by 104 basis points primarily due to the fair value pricing adjustment occurring at the end of each of the last two months.

Mr. McCaffrey noted that for the year to date, performance for the F, C, and S Funds was also in line with benchmarks. Performance for the I Fund was ahead of the International benchmark by 46 basis points primarily attributable to a fair value pricing adjustment on the last business day of the month.

Mr. McCaffrey stated the stock prices fluctuated once again during March as talk of trade held the attention of many investors while negative sentiment around some large cap stocks helped lead the market lower. The large cap focused C Fund and I Fund declined for the month and the smaller cap focused S Fund held slight gains. The Federal Reserve Board raised its target Fed Funds rate during its most recent meeting, but the F Fund still managed to show a gain as a result of some Treasury rates declining.

Mr. McCaffrey continued his report stating that for the current month through the close on Friday, April 20, equities are holding gains. The C Fund is ahead by 1.21%, the S Fund is better by 1.83%, and the I Fund is up 2.15%. Because of higher interest rates so far this month, the F Fund is showing a loss of 0.83%. Mr. McCaffrey pointed out that the L Funds all are down for the month, largely attributable to the C Fund's influence in the equity allocation. The L Funds more diversified asset class profiles help to steady returns in what can be otherwise more volatile periods. Similarly, the year-to-date returns for the L Funds are just slightly on either side of breakeven.

Mr. McCaffrey pointed out that there was much more subdued interfund transfer activity relative to February. As expected, L Fund 2050 participation showed another reasonably good increase during the reporting month, influenced by Blended Retirement opt-ins. Lastly, Mr. McCaffrey pointed out that more increases from blended retirement were expected over the next few of months as auto-enrollments begin to show.

Chairman Kennedy entertained a motion to continue the current polices for the G, F, C, S, and I Funds. The following motion was made, seconded, and adopted without objection:

MOTION: To continue the current polices for the G, F, C, S, and I Funds be approved.

b. Budget Review

Ms. Crowder presented an overview of the Fiscal Year (FY) 2018 2nd Quarter Budget Review. See "FRTIB FY 2018 2nd Quarter Budget Review" (attached). Ms. Crowder noted that the budget was in alignment with the projected spend plan, at 92% of the current target. The actual execution rate was 69% or \$214.9 million for the 2nd quarter, which, when annualized, is over the 309.7-million-dollar budget. The vast majority of the executed budget was in support of recordkeeping operations and maintenance. Lastly, Ms. Crowder stated that as of the end of the 2nd quarter, the Agency has \$533 billion in average net assets under management.

c. Audit Status

Mr. Brack Boone of the Office of Enterprise Risk Management (OERM) provided an overview of the Audit Finding and Remediation Activity. See "Audit Findings and Remediation Activity" (attached). The Agency is reducing the number of open audit findings and working better with its audit partners. Member Jasien asked why the auditing and Agency personnel seem to be working better. Mr. Boone stated that communication has improved between the Agency liaisons and the auditors.

4. Office of the Chief Financial Officer (OCFO) Annual Board Report

Ms. Crowder presented an overview of the OCFO annual report. See "Office of the Chief Financial Officer Annual Board Report" (attached). Ms. Crowder stated that OCFO has 34 staff members; and when fully staffed, it will have 39 staff members. Ms. Crowder gave a summary of OCFO by functional division, including describing the responsibilities of each division. She noted that OCFO had some notable accomplishments over the past 12 month: OCFO manages the investment operations of \$550 billion average net assets under management for more than 5.2 million participants; OCFO received a clean audit opinion in the financial audit of 2017. Ms. Crowder also noted that OCFO received a Treasury scorecard rating of green (an excellent rating). Member Bilyeu asked for the target timeline for getting the final OCFO positions filled. Ms. Crowder stated that all of the positions should be filled by the end of the calendar year.

#### 5. Internal Audit

Mr. David Harvey, Head of Internal Audit, presented an overview of the internal audit activities. See "Internal Audit @ FRTIB" (attached). Mr. Harvey gave updates on audits that had been included in prior Calendar Year 2016 and 2017 audit plans. He also noted that the Agency had initiated the following audits included in the Calendar Year 2018 audit plan: FISMA and Compliance with Laws and Regulations. Chairman Kennedy asked if there timing issues relating to completion of ongoing audits. Mr. Harvey indicated that there were no timing issues and that work was progressing. He also indicated that the following two audits would be initiated later in the year: Release Management and Improper Payment Analysis.

Mr. Harvey noted that Internal Audit had identified and presented OCFO and OTS with recommendations regarding four contract management issues in regard to the Technology and Enterprise Support Services (TESS) contract for agency Information Technology services: update contracting policies and procedures; issue guidance on the documentation of decisions to exercise contract options; address the requirement for a System and Organization Controls Report regarding work under the contract, and to improve contract oversight. Ms. Crowder stated that Management agreed with the recommendations; and was taking steps to address each of the Internal Audit recommendations.

#### 6. Annual Financial Report

Mr. Thomas Rey of Clifton Larson Allen (CLA) presented an overview of the 2017 financial statement audit. See "Federal Retirement Thrift Investment Board – Investment 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; 3 significant deficiencies were identified; and twelve other control related matters were identified. Mr. Rey noted



that the 3 significant deficiencies included the following: System Authorizations and Continuous Monitoring; Plans of Action and Milestones Remediation; and Unsupported Operating Systems.

7. Department of Labor (DOL) Presentation

Michael Auerbach of the Department of Labor Employee Benefits Security Administration (EBSA) presented an overview of the fiscal year 2018 fiduciary oversight program. Heather Flanagan of KPMG LLP presented highlights of the overall audit assessment from May 2017 to April 2018 and an overview of the new fundamental control recommendations. See "U.S. Department of Labor Employee Benefits Security Administration Fiscal Year (FY) 2018 Thrift Savings Plan Fiduciary Oversight Program" presentation (attached). Fourteen audits have been finalized. No material instances of non-compliance were reported. Ms. Flanagan stated that sixteen agency recommendations were closed; sixty five new agency recommendations were issued; fifty seven are fundamental control recommendations, that is, recommendations that EBSA deems to be most critical.

Ms. Flanagan noted that the largest number of recommendations come from the mainframe configuration. Various mainframe configuration issues were identified, including excessive privileges, password encryption, service-level, metrics, monitoring the data migration, and audit logs. Eleven new fundamental control recommendations were issued in May of 2017 for Computer Access and Security Controls. These recommendations address areas such as identity and access management policies and procedures, system security documentation, the quarterly updates of Plan of Action and Milestones (POAMs), and security incident reporting.

Ms. Flanagan stated that there are 3 new recommendations from the 2 Blended Retirement pre-implementation audits. The recommendations relate to system capacity, budget management time lines, and risk acceptance documentation. There are eleven new fundamental control recommendations that cover the following: the overall governing structure relating to mobile devices; development and implementation of policy and procedures over them; configuration management; and vulnerability scanning over the related server.

Ms. Flanagan pointed out that a new fundamental control recommendation was identified relating to the lack of risk assessment over third-party connections before executing external services agreements. The L Funds Operations audit resulted in 3 new fundamental control recommendations relating to various aspects of the asset management interface application. Participant Support resulted in 6 new fundamental control recommendations relating to the contact centers. These recommendations cover areas such as: password complexity settings; the timely removal of physical access; implementation of media disposal procedures; and lack of a privacy impact assessment at one of the centers. Lastly, Ms. Flanagan noted that 4 new fundamental controls recommendations were identified from the Withdrawals audits. These relate to the following: system edit checks for age-based in-service withdrawals; policies and

procedures over verification of marital status and notary seal requirements; and documentation for certain in-system controls. Chairman Kennedy asked whether EBSA was comfortable with the current pace of the audit process. Ms. Flanagan stated that she was and that the Agency seemed supportive of EBSA's audits and recommendations.

8. Information Technology (IT) Update

Mr. Desai presented an overview of the FY 2017 Information Technology IT initiatives; an update on the upcoming IT projects; and an update on National Cybersecurity Assessments and Technical Services (NCATS) program being conducted by the Department of Homeland Security. Mr. Desai stated that the first phase of the data encryption project was completed and the project is on schedule. He also stated that the network access control project was underway and on schedule. The case management system requirements have been submitted to Science Applications International Corporation (SAIC). Lastly, Mr. Desai noted that the Windows 2008 upgrade of 140 servers is underway.

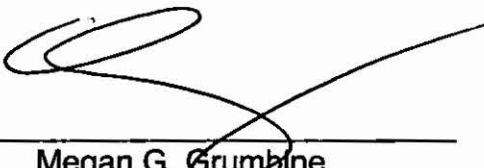
9. Adjourn

On a vote taken by the Chairman, the members closed the meeting at 10:06 a.m. for executive session.

At 12:29 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 12:29 p.m.

MOTION: That this meeting be adjourned.

  
\_\_\_\_\_  
Megan G. Grumbine  
Secretary

## Attachments

1. 1a. Thrift Savings Fund Statistics  
1b. Contact Center
2. March 2018 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB FY 2018 2nd Quarter Budget Review
4. 4a. Audit Findings  
4b. Audit Report Summary PowerPoint  
4c. Performance Audit of the Thrift Savings Plan National Defense Authorization Act Pre-Implementation Controls No. 2  
4d. Performance Audit of the Thrift Savings Plan Withdrawals Process  
4e. Performance Audit of the Thrift Savings Plan Investment Management Operations  
4f. Performance Audit of the Thrift Savings Plan Account Maintenance Process  
4g. Performance Audit of the Thrift Savings Plan Implementation of the Defending Public Safety Employees' Retirement Act
5. Office of the Chief Financial Officer Annual Board Report
6. 6a. Internal Audit Update  
6b. TESS Contract Management Assessment  
6c. Management Response to TESS Contract Management Assessment
7. Federal Retirement Thrift Investment Board – Investment Savings Fund
8. U.S. Department of Labor Employee Benefits Security Administration Fiscal Year (FY) 2018 Thrift Savings Plan Fiduciary Oversight Program
9. IT Update