



Employee Benefits Security Administration

**Performance Audit of Thrift Savings Plan
Investment
Management Operations**

As of May 26, 2011

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EXECUTIVE SUMMARY

Members of the Federal Retirement Thrift Investment Board
Washington, DC

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As a part of the U.S. Department of Labor (DOL) Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of the Thrift Savings Plan (TSP) investment management operations related to the Fixed Income Index Investment Fund (F Fund), Common Stock Index Investment Fund (C Fund), Small Capitalization Stock Index Investment Fund (S Fund), and International Stock Index Investment Fund (I Fund). Our fieldwork was performed from January 31, 2011 through May 26, 2011, primarily at the offices of BlackRock Institutional Trust Company, N.A. (BTC) located in San Francisco, CA. Our scope period for testing was January 1, 2010 through December 31, 2010.

We conducted this performance audit in accordance with the standards applicable to such audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient appropriate audit evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Criteria used for this engagement is defined in EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, and applicable Federal Retirement Thrift Investment Board (Board) regulations and bulletins. The detailed objectives of this engagement are enumerated within Section I.A.

The audit included assessing the TSP investment management operations to determine if (1) TSP investments were promptly and accurately deposited in the authorized investment funds; (2) TSP investment transactions were properly summarized and reported to the Board's Staff (Agency), including investment management fees relating to the TSP investment funds; (3) the daily yield on each investment fund, less authorized management fees, was accurately reported to the Agency; (4) index investment funds were invested in a portfolio that matched the indices

selected by the Board; (5) investment transactions complied with the terms of applicable DOL individual and class exemptions; (6) BTC voted the proxies of the C, S, and I Funds in accordance with its stated guidelines; and (7) TSP investment transactions were processed accurately and timely. In addition, we assessed compliance of the TSP investment management operations with FERSA and applicable Board regulations and bulletins.

We conclude that the TSP investment management operations described above complied with FERSA, as amended, and with applicable Board regulations and bulletins for the period January 1, 2010 through December 31, 2010. During this period, we also noted that BTC implemented certain procedures to (1) promptly and accurately deposit TSP investments in the authorized investment funds; (2) properly summarize and report TSP investment transactions to the Agency, including investment management fees relating to the TSP investment funds; (3) accurately report to the Agency the daily yield on each investment fund, less authorized management fees; (4) invest index investment funds in a portfolio that matches the indices selected by the Board; (5) comply with the terms of applicable DOL individual and class exemptions; (6) vote proxies of the C, S, and I Funds in accordance with its stated guidelines; and (7) accurately and timely process TSP investment transactions.

We noted no prior recommendations, and the current engagement produced no new recommendations.

Section I of this report discusses EBSA's objective, scope and methodology, and report organization. Section II is an overview of the TSP, the TSP service providers, the Federal agencies and uniformed services, and TSP investment management operations. Section III presents our current year findings. In Appendices A and B, we identify the key personnel with whom we met and the documentation provided by BTC and Agency personnel that we reviewed during our performance audit. Final Agency comments, including the Executive Director's formal reply, are included as an appendix within this report (Appendix D).

This performance audit did not constitute an audit of the TSP's financial statements, BTC's financial statements, or the financial statements of the funds that BTC manages in accordance with *Government Auditing Standards*. KPMG was not engaged to, and did not render an opinion on the Agency's or BTC's internal controls over financial reporting or over financial management systems (for purposes of the Office of Management and Budget's Circular No. A-127, Financial Management Systems, July 23, 1993, as revised). KPMG cautions that projecting the results of this audit to future periods is subject to the risks that controls may become

inadequate because of changes in conditions or because compliance with controls may deteriorate.

KPMG LLP

December 7, 2011

I. INTRODUCTION

A. Objective

The U.S. Department of Labor (DOL), Employee Benefits Security Administration (EBSA) engaged KPMG LLP (KPMG) to conduct a performance audit of the Thrift Savings Plan (TSP) investment management operations related to the Fixed Income Index Investment Fund (F Fund), Common Stock Index Investment Fund (C Fund), Small Capitalization Stock Index Investment Fund (S Fund), and International Stock Index Investment Fund (I Fund).

The specific objectives of this engagement were to determine whether:

- Investments were promptly and accurately deposited in the appropriate investment fund designated by the Federal Retirement Thrift Investment Board's (Board) Staff (Agency), and those funds held only those types of investments allowed by the law;
- TSP investment activity was properly summarized and reported to the Agency, including investment management fees relating to the TSP investment funds;
- The daily yield on each investment fund, less authorized management fees, was accurately reported to the Agency;
- Index investment funds were invested in a portfolio that matches the indices selected by the Board;
- Investment transactions complied with the terms of applicable DOL individual and class exemptions (i.e., Individual Prohibited Transaction Exemption (IPTE) 92-11, Prohibited Transaction Exemption (PTE) 2006-16, PTE 2002-30 and the proposed Minority Passive Shareholder¹ (MPS) Exemption²);
- Proxies of the C, S, and I Funds were voted in accordance with BlackRock Institutional Trust Company, N.A. (BTC) proxy voting guidelines; and
- TSP investment transactions were processed accurately and timely, and any errors were investigated and corrected.

¹ BlackRock's *Managing ERISA Assets*, June 2010, defines "Minority Passive Shareholder" as "a direct or indirect owner of 10% or more of the combined voting power of all classes of stock of BTC or its direct or indirect parent that are entitled to vote or the total value of shares of all classes of stock of BTC or its direct or indirect parent, but less than 50% of the combined voting power of all classes of stock of BTC or its direct or indirect parent that are entitled to vote or the total value of shares of all classes of stock of BTC or its direct or indirect parent."

² During our audit fieldwork, BTC was in the process of obtaining an exemption from DOL that permitted it to enter into certain transactions with, or involving, one or more of the MPS. The exemption, PTE 2011-17, was published in the Federal Register on August 15, 2011 with a retroactive effective date of December 1, 2009.

B. Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. In particular, we conducted our engagement as a performance audit defined by the *Government Auditing Standards* as "an objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability." We performed our engagement in four phases: (1) planning, (2) arranging for the engagement with the Agency and BTC, (3) testing and interviewing, and (4) report writing.

The planning phase was designed to assist team members to develop a collective understanding of the activities and controls associated with the applications, processes, and personnel involved with TSP operations. Arranging the engagement included contacting the Agency and BTC, and agreeing on the timing of detailed testing procedures.

During the testing and interviewing phase, we conducted interviews, collected and inspected auditee-provided documentation and evidence, participated in process walk-throughs, and designed and performed tests of controls and compliance. We conducted these test procedures primarily at the service provider, BTC, in San Francisco, CA.

Our performance audit procedures included testing a statistical sample of the following:

- Securities lending transactions to determine if BTC complied with the terms of the DOL PTE 2006-16 and the proposed MPS Exemption.

The objective of this statistical testing was to estimate the error rate for the population, as applicable, based on the error rate for a selected sample of such transactions.

Additionally, our performance audit procedures included testing non-statistical samples of the following:

- Investment orders placed with BTC to determine the accuracy and timeliness of processing;

- Management fee invoices submitted to the Agency by BTC to determine compliance with the service contracts;
- Cross-trade transactions to determine if BTC complied with the terms of the DOL cross-trading exemption IPTE 92-11;
- Proxy votes to determine if BTC complied with its proxy voting guidelines;
- In-kind transactions to determine that they did not negatively impact the composition of the applicable investment fund; and
- Transaction, Asset, and Trust Statements to determine if BTC timely submitted them to the Agency to facilitate reconciliations to the TSP general ledger.

Because we used non-statistically determined sample sizes, our conclusions are applicable to the sample we tested and were not extrapolated to the population.

The report-writing phase entailed drafting a preliminary report, conducting an exit conference (Appendix C), providing a draft report to the Agency for comment, and preparing and issuing the final report.

C. Organization of Report

Section II includes an overview of the TSP, the TSP service providers, the Federal agencies and uniformed services, TSP investment management operations, and related statistics. Section III presents a detailed discussion of our findings.

II. OVERVIEW OF TSP INVESTMENT MANAGEMENT OPERATIONS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System (FERS). The TSP provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. For FERS participants, the TSP also provides agency automatic 1 percent and matching contributions. The TSP began accepting contributions April 1, 1987, and as of June 30, 2011, had fund balances totaling approximately \$289 billion and approximately 4.5 million participants.³

The FERSA also established the Federal Retirement Thrift Investment Board (Board) and the position of Executive Director. The Executive Director and the members of the Board are TSP fiduciaries. The Executive Director manages the TSP for its participants and beneficiaries. The Board's Staff (Agency) is responsible for administering TSP operations.

The TSP is required to offer five investment options: the Government Securities Investment Fund (G Fund), the Fixed Income Investment Fund (F Fund), the Common Stock Index Investment Fund (C Fund), the Small Capitalization Stock Index Fund (S Fund), and the International Stock Index Investment Fund (I Fund). FERSA requires:

- G Fund contributions to be invested in nonmarketable U.S. Treasury securities specially issued to the TSP. These securities earn interest at a rate that is equal, by law, to the average of market yields on U.S. Treasury marketable securities outstanding with 4 or more years to maturity;
- F Fund contributions to be invested in insurance contracts, certificates of deposit, or other fixed income securities selected by a qualified professional asset manager;

³ Source: Minutes of the July 18, 2011 Federal Retirement Thrift Investment Board Meeting, posted on www.frtib.gov

- C Fund contributions to be invested in a stock fund designed to replicate the performance of a commonly recognized index. The index should be a reasonably complete representation of the U.S. equity markets;
- S Fund contributions to be invested in a stock fund designed to replicate the performance of a commonly recognized index. The index should be a reasonably complete representation of the U.S. equity markets excluding the common stocks included in the C Fund; and
- I Fund contributions to be invested in a stock fund designed to replicate the performance of a commonly recognized index. The index should be a reasonably complete representation of the international equity markets excluding the U.S. equity markets.

Additionally, the TSP offers the L Funds, which are portfolio funds comprised of the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to five different time horizons.

B. The TSP Service Providers

Several organizations provide significant TSP services for the Agency under a contract or Memorandum of Understanding (MOU). These organizations provide maintenance and operations support and disaster recovery capability for the TSP record keeping system (TSP system), certain record keeping services, call center services, and other services. These record keeping services include establishing and maintaining individual TSP participant accounts and generating reports for all payroll offices so that they can reconcile the information processed by the TSP system with information in their systems and correct transactions rejected by the TSP system.

The TSP, through its service providers, is also responsible for processing withdrawal and loan requests, disbursing participant TSP loans, and processing loan payments withheld from participants' pay by the participants' payroll office.

Participants formally receive quarterly statements of TSP account activity from the TSP, through its service provider, electronically (default) or via hard copy (upon request). In addition, all participants receive an annual participant statement through the mail unless they opt out of the

service. It is each participant's responsibility to determine that his/her TSP account activity is correct.

When participants retire or transfer, their employing agency or service is responsible for reporting the change in employment status to the TSP. Separated participants inform the TSP directly of other changes in circumstances, such as address or marital status. Additionally, such participants should contact the TSP if questions arise.

C. The Federal Agencies and Uniformed Services

Federal agencies and the uniformed services have a responsibility to provide timely and accurate participant account information to the TSP. As part of this responsibility, agencies and services provide, receive, and process participant contributions election forms. Federal agencies and services calculate employee and agency contributions and process deductions from employees' pay for contributions and loan payments. Information for all active, recently separated, and transferred participants is submitted primarily electronically to the TSP each payroll period.

Federal agency payroll offices and uniformed services are also required to submit an Employee Data Record (06-Record) containing an appropriate separation code and date to the TSP when an employee or member separates from government service. The separation code and date provides the TSP system with information necessary to complete the processing of TSP withdrawals. Federal agency personnel offices and uniformed services are also responsible for distributing withdrawal forms or information to participants. Participants can also obtain forms and publications from the TSP website, ThriftLine, or a TSP Participant Support Representative.

D. TSP Investment Management Operations

The Agency contracted with BlackRock Institutional Trust Company, N.A. (BTC) to manage assets for the F, C, S, and I Funds. The TSP has more assets under management by BTC than any other defined contribution plan.

As investment manager, BTC is responsible for ensuring that:

- Investments and investment management operations comply with FERSA and provisions of the contract between the Agency and BTC;

- Investment management and custodian operations safeguard F, C, S, and I Fund investments;
- F, C, S and I Funds investment transactions are processed accurately and timely;
- Proxies related to the C, S, and I Funds' investments are voted in accordance with BTC's stated guidelines;
- Cross-trades, securities lending, and transactions involving minority passive shareholders (MPS) are executed in accordance with the terms of the applicable DOL exemptions; and
- The Agency receives timely transaction reports to facilitate reconciliations to the TSP general ledger.

The G Fund investments are managed by the Agency and were not within the scope of this performance audit.

E. The F, C, S, and I Funds Investment Process

Fund Overviews

F Fund assets are invested in BTC's U.S. Debt Index Fund-E (BTC's daily-valued investment fund that is invested primarily in BTC's U.S. Debt Index Fund), a commingled fund that is designed to track the performance of the Barclays Capital U.S. Aggregate Bond Index. The Barclays Capital U.S. Aggregate Bond Index was designed to provide a representative measure of the U.S. fixed income markets.

Because the Barclays Capital U.S. Aggregate Bond Index is comprised of many securities, it is not feasible for BTC's U.S. Debt Index Fund to hold every security. Consequently, BTC uses mathematical models to select a representative sample of the U.S. Government, foreign government, corporate, taxable municipal, mortgage-backed, commercial mortgage-backed, and asset-backed securities included in the Barclays Capital U.S. Aggregate Bond Index. As illustrated in *Exhibit II-1*, the portfolio profile of the U.S. Debt Index Fund (in dollar terms), as of December 31, 2010, closely represented the Barclays Capital U.S. Aggregate Bond Index:

Sector Breakdown	BTC's U.S. Debt Index Fund ⁴	Barclays Capital U.S. Aggregate Bond Index ²
U.S. Government Securities	40.84%	40.98%
Foreign Government Securities	3.94%	3.94%
Corporate Credit	18.70%	18.74%
Taxable Municipal	0.79%	0.84%
Mortgage-backed Securities	32.62%	32.73%
Commercial Mortgage-backed Securities	2.67%	2.48%
Asset-backed Securities	0.27%	0.28%
Cash	0.16%	0.00%

Source: BTC U.S. Debt Index Fund Portfolio Profile as of December 31, 2010

Although the U.S. Debt Index Fund-E's investment policy allows the use of futures, the Fund does not currently use them to improve tracking or provide liquidity.

C Fund assets are primarily invested in BTC's Equity Index Fund-EX (BTC's daily-valued investment fund that is invested primarily in BTC's Equity Index Non-Lendable Fund), a commingled fund that is designed to track the performance of the Standard and Poor's 500 Composite Stock Price Index (S&P 500 Index). The S&P 500 Index was designed to provide a representative measure of U.S. stock market performance. It consists of 500 common stocks, representing more than 100 separate industries, which trade primarily on the New York Stock Exchange.

The Equity Index Fund-EX holds the Equity Index Non-Lendable Fund, which invests in S&P 500 Index futures, a type of derivative, to equitize⁵ cash balances, reduce tracking error, and provide liquidity. (See further discussion below under subsection Use of Futures in BTC's Index Funds in Section F.)

S Fund assets are invested in BTC's Extended Equity Market Fund-E (BTC's daily-valued investment fund that is primarily invested in BTC's Extended Equity Market Fund), a commingled fund that tracks the performance of the Dow Jones U.S. Completion Total Stock Market Index. The Dow Jones U.S. Completion Total Stock Market Index is an index of all

⁴ Percentages do not sum to a 100% because of rounding.

⁵ To purchase an equity, forward, or options synthetic position which is generally collateralized by or maintained against a cash equivalent position.

actively traded U.S. common stocks that are not included in the S&P 500 Index. As of December 31, 2010, the Dow Jones U.S. Completion Total Stock Market Index was comprised of approximately 3,400 common stocks included in the U.S. stock market, excluding the 500 issues that are represented in the S&P 500 Index⁶. The BTC Extended Equity Market Fund holds a majority of these non-S&P 500 stocks; however, it is not practicable to hold all such stocks. Therefore, the BTC Extended Equity Market Fund is managed as a model-driven fund with the objective of replicating the returns of the Dow Jones U.S. Completion Total Stock Market Index. The BTC Extended Equity Market Fund also invests in related index futures to improve tracking and liquidity. (See further discussion below under subsection Use of Futures in BTC's Index Funds, in Section F.)

I Fund assets are invested in BTC's EAFE Equity Index Fund-E (BTC's daily-valued investment fund that is invested primarily in BTC's EAFE Equity Index Fund), a commingled fund that tracks the Morgan Stanley Capital International Europe, Australasia, and Far East Index (MSCI EAFE Index). The MSCI EAFE Index is an index of the equity markets of the developed world outside of the United States and Canada. As of December 31, 2010, the MSCI EAFE Index consisted of the stocks of 969 companies in 22 countries⁷.

BTC's EAFE Equity Index Fund directly, or through the funds in which it invests, holds the stocks of all 22 countries included in the EAFE Index. The BTC EAFE Equity Index Fund and the EAFE Equity Index Fund-E also invest in related index futures to improve tracking and, for the EAFE Equity Index Fund-E, to provide liquidity. (See further discussion below under subsection Use of Futures in BTC's Index Funds, in Section F.)

The primary source of earnings for the I Fund is the net changes in the prices of stocks in BTC's EAFE Equity Index Fund, although at times, net foreign currency changes relative to the U.S. dollar can be a greater component of earnings than stock price gains or losses. Dividend income and securities lending income are also important sources of earnings. The MSCI EAFE Index is diversified among countries and industries, so that the effect of poor performance in one stock market or group of companies may be reduced.

⁶ TSP S Fund Information Sheet at tsp.gov.

⁷ TSP I Fund Information Sheet at tsp.gov

Fund Percentages Owned by TSP

TSP assets represent significant percentages of the investments in the BTC index funds in which they are invested. As noted earlier in this report, the TSP assets are invested in daily-valued and daily-traded investment funds managed by BTC. The BTC fund designator “E” or “EX” identifies the fund as a daily-valued and daily-traded fund. The underlying investments of these “E” designated funds are primarily shares in the daily valued (although not necessarily daily-traded) funds in which all of the physical securities transactions occur. The “E” designated funds also hold a small amount of liquid investments in order to accommodate daily investment transactions; in the case of the I Fund, this includes futures and forwards.

The percent of TSP assets of the total investments in the related BTC collective trust funds (i.e., “E” Funds), the percent of “E” Fund holdings of the underlying BTC funds in which the actual security trading occurred, and the percent of TSP assets of the underlying BTC funds as of December 31, 2010, were as follows:

Exhibit II-2

Fund	TSP Assets as a % of “E/EX” Fund	“E/EX” Fund Holdings as a % of Underlying Fund	TSP Assets as a % of Underlying Fund
U.S. Debt Index	65.5%	82.2%	53.8%
Equity Index	93.6%	91.4%	85.5%
Extended Equity Market	82.7%	92.9%	76.8%
EAFE Equity Index	99.9%	34.7%	34.7%

Source: BTC Security Cross Reference Reports as of December 31, 2010

Investment Process Overview

By 2:00 p.m. Eastern time on each trade date, the Agency notifies BTC of its investment order for the TSP funds. BTC’s Client Order Management Group (COM) is responsible for the investment order process, which is facilitated through BTC’s Order Management System. The Agency typically submits its investment orders electronically via an interface to BTC’s Order Management System for each of the four TSP accounts. Once the Agency determines the investment amounts for each of the TSP funds, it is entered into the Asset Manager System

(AMS) and transmitted via electronic order interface to the Order Management System. Upon receipt of the electronic order, an automated electronic confirmation is generated and sent back to AMS for review by the Agency.

Once the order has been received and confirmed, the Order Management System produces the “Core Funds Report,” listing all the contributions and withdrawals requested by BTC’s clients. Managers in BTC’s Portfolio Management Group then prepare security level trade lists for each fund. The lists for equity securities are then submitted to the Fund Optimizing and Crossing (FOX) System, BTC’s centralized cross-trading record keeping system.

The FOX System identifies cross-trading opportunities among funds managed by BTC. Cross-trades for the Equity Index Fund, Extended Market Index Fund, and EAFE Equity Index Fund occur when another fund or account maintained by BTC is a buyer or a seller of an equity security or securities for which one of these three funds is a seller or a buyer, respectively. (See Trading Costs in Section G below.) The FOX System is designed to only authorize cross-trades qualified under individual prohibited transaction exception (IPTE) 92-11 and the proposed MPS exemption. (See Section H below.) The residual trade lists are given to the BTC Trading Group to execute. For fixed income trades, BTC’s Trading Operations Department verifies the trades with executing brokers and uses BTC’s Aladdin System to transmit the information to State Street Corporation⁸ to record the accounting and custodial information. For equity trades, an interface occurs between systems used by BTC’s Trading Group and State Street’s system. State Street’s Trading Operations Group verifies the equity trades with executing brokers and sends the information electronically to State Street’s systems.

TSP trades settle one business day after the trade date. The Agency’s accounting staff authorizes the wire transfer of the F, C, S, and I Fund net contributions to BTC on the settlement date for purchases. (In the case of a redemption, the money is wire transferred from BTC to the TSP’s account with the U.S. Department of the Treasury.) The BTC Client Reporting Group sends the Agency transaction reports confirming the trades. These reports include the Agency’s trading costs, if any. BTC’s trading costs are charged on a pro rata basis to the plans that make a contribution to or withdrawal from BTC’s U.S. Debt Index Fund, U.S. Debt Index Fund-E, Equity Index Non-Lendable Fund, Equity Index Fund-EX, Extended Equity Market Fund, Extended Equity Market Fund-E, EAFE Equity Index Funds, or EAFE Equity Index Fund-E.

⁸ BTC outsources its custodial and fund accounting processes to State Street Corporation (State Street). State Street is an independent company that specializes in investment custodial services and offers integrated accounting and custodial management systems to its customers that provide for fund accounting in a daily valuation environment.

The BTC Client Reporting Group also sends to the Agency's Office of Benefits and Investments monthly transaction reports for the TSP investments in the various BTC funds. These reports list the details of all TSP transactions during the month as well as the market and book values of the funds at the end of the month.

Management Fees

On a monthly basis, the BTC Financial Reporting Group invoices the Agency for management fees based on rates established in the investment management contracts between the Agency and BTC.

F. Use of Futures and Securities Lending

Use of Futures in BTC's Index Funds

In October 1993, BTC's Equity Index Fund began to invest in S&P 500 Index futures to reduce the tracking error, which resulted from the dividend reinvestment assumptions inherent in the S&P 500 Index. The S&P Index treats dividends as if they were reinvested on the ex-dividend date⁹. Dividends are not paid to investors until after that date. In addition, BTC's Equity Index Fund uses futures contracts to equitize cash balances maintained for liquidity. For the Equity Index Fund, BTC invests only in S&P 500 Index futures that are freely traded on major futures exchanges in order to minimize the counter-party credit risk with these transactions. At December 31, 2010, the S&P 500 Index futures constituted 0.53 percent¹⁰ of the value of BTC's Equity Index Non-Lendable Fund.

BTC's Extended Equity Market Fund also invests in index futures to improve tracking against the Dow Jones U.S. Completion Total Stock Market Index. In addition, BTC's Extended Equity Market Fund uses futures contracts to equitize cash balances maintained for liquidity. While no single futures market exactly matches the components of the Dow Jones U.S. Completion Total Stock Market Index, BTC's Extended Equity Market Fund currently uses Russell 2000 Index

⁹ The ex-dividend date is the day a stock begins to trade without its dividend and represents the cut-off day for earning the dividend. Those investors who purchased the stock by the end of the day prior to ex-dividend date would be entitled to the dividend, while those investors who purchased the stock on or after the ex-dividend date are not entitled to the dividend.

¹⁰ Source: Derived from BTC's Aladdin System

futures and S&P 400 Index futures to improve tracking. At December 31, 2010, index futures constituted 1.59¹⁰ percent of the value of BTC's Extended Equity Market Fund.

BTC's EAFE Equity Index Fund-E, EAFE Equity Index Fund, and its underlying funds invest in various forward contracts relating to foreign currency and futures contracts relating to foreign stock exchanges (e.g., Yen and Pound forwards, Topix Index futures, and FTSE 100 Index futures). However, futures contracts do not exist for all 22 country stock markets represented in the EAFE Index. Therefore, BTC typically invests in selected futures (i.e., that have been approved by U.S. regulators for investment by U.S. persons and that have substantial liquidity) to improve tracking. At December 31, 2010, index futures constituted 0.46 percent¹⁰ of the value of BTC's EAFE Equity Index Fund and 3.60 percent¹⁰ of BTC's EAFE Equity Index Fund-E.

As described below in the section on Securities Lending, since 1991, BTC has been investing cash collateral obtained from its securities lending activities in investments that may have derivative components.

Securities Lending

Brokers occasionally borrow specified securities to complete a trade that would otherwise fail or to short sell (i.e., sell with the expectation of buying the securities to settle the trade at a later time at a lower price). BTC is responsible for negotiating securities lending transactions for its funds within its established guidelines.

BTC has implemented procedures to limit the risk of default on securities loaned. Potential borrowers undergo a credit screening process and, if approved, must provide collateral equal to at least 102 percent of the market value of the U.S. securities loaned and 105 percent of the market value of international securities loaned. The collateral is marked-to-market daily so that it is maintained at the levels described above. U.S. collateral may be in the form of cash, U.S. government obligations, bank certificates of deposit, bankers' acceptance, certain mortgage-backed securities or irrevocable letters of credit from BTC-approved institutions that are not affiliated with the borrower. Non-U.S. collateral may be in the form of cash denominated in certain non-U.S. currencies, securities issued or guaranteed by certain multilateral development banks, highly rated sovereign debt, and letters of credit issued by certain non-U.S. banks. Cash collateral is segregated from other assets of the lending fund by identification on the books and records of the lender, and is invested in cash collateral funds.

BTC invests securities lending collateral in various investments, some of which may have derivative components. Per BTC policy, the type of derivatives involved in these collateral investments is limited to synthetic cash investments designed to replicate traditional money market risk characteristics or derivatives used for portfolio management purposes to adjust the average life of the portfolio. To further limit the risk involved with these transactions, BTC subjects potential counter parties to the same credit screening process to which BTC subjects its security lending borrowers. BTC has set limits on the amount of securities lending and collateral investments that it has with any one entity. The following table shows the percent of the securities in each underlying fund applicable to the TSP that were on loan to approved brokers as of December 31, 2010 and 2009.

Exhibit II-3

Fund	As of December 31, 2010	As of December 31, 2009
U.S. Debt Index Fund	28.3%	29.2%
Equity Index Fund	14.1%	11.4%
Extended Equity Index Fund	23.9%	25.8%
EAFE Equity Index Fund	5.7%	9.0%

Source: BlackRock Institutional Trust Company., Collective Trust Funds for Employee Benefit Trusts, Report on Audits of Financial Statements for the years ended December 31, 2009 and 2010

Lending opportunities are allocated to a particular BTC fund through a calculation performed by BTC's Global Loan Manager system at the time of the loan. The system evaluates each fund's amount on loan as a percentage of its lendable market value. For securities held by more than one fund, the fund with the lowest loan percentage will be assigned the lending opportunity.

The lending funds receive 50% of the net income earned from securities lending transactions, and BTC retains the remainder. The income divided between the funds and BTC is net of cash collateral management fees and accrued borrower rebate fees. BTC bears all operational costs directly related to securities lending. In its current agreement with the TSP, BTC rebates a portion of the income received from securities lending transactions to the TSP. The chart below presents the effect (i.e., percent increase) of the use of securities lending income on fund returns for BTC's underlying funds applicable to the TSP for the 12-month period ended December 31,

2010, and the proportion of securities lending income to net investment income for the fiscal years ended December 31, 2010 and 2009, respectively.¹¹

Exhibit II-4

Fund	Range of Effect of Securities Lending on Monthly Fund Returns	Securities Lending Income to Net Investment Income	
	2010	2010	2009
U.S. Debt Index Fund	0.13 bps to 0.48 bps	0.86%	0.53%
Equity Index Fund	0.10 bps to 0.29 bps	1.05%	2.91%
Extended Market Index Fund	0.58 bps to 1.22 bps	7.78%	6.83%
EAFE Equity Index Fund	0.15 bps to 1.70 bps	2.69%	2.59%

BTC currently expects a higher ratio of securities lending income to net investment income for the Extended Market Index Fund because it currently has relatively higher securities lending activity.

G. Trading Costs

Trading costs associated with client transactions in BTC's Equity Index, Extended Equity Market, and EAFE Equity Index Funds generally consist of negotiated commissions on common stock purchases and sales or the buying and selling of futures contracts. Trading costs in BTC's U.S. Debt Index Fund consist of the spreads between dealer's bid and ask prices on debt securities purchased and sold. The trading costs are shared proportionately by the plans causing the trade (i.e., those with contributions if the fund is in a net buy position or those with withdrawals if the fund is in a net sell position). These trading costs do not contribute to the tracking error of the various funds.

The costs associated with rebalancing the U.S. Debt Index, Equity Index, Extended Equity Market, and EAFE Equity Index Funds are borne by the respective funds and are, therefore,

¹¹ Percentages are based on amounts reported in the BlackRock Institutional Trust Company, Collective Trust Funds for Employee Benefit Trusts, Report on Audits of Financial Statements for the years ended December 31, 2010 and 2009.

shared by all fund participants. To minimize trading costs, BTC cross-trades, in the case of equities only, among eligible BTC managed funds before trading in the external market.

Transaction costs are also decreased to the extent that cash from client contributions are available for cash redemptions on a fund opening day (i.e., a “unit exchange”), or when a client chooses to contribute securities to a fund (i.e., an “in-kind contribution”).

Unit Exchanges

The terms “unit exchange” or “unit cross” are used to describe the process in which cash received by a fund from client contributions on a given day permits the fund to provide cash to withdrawing clients on that day. To the extent that the amounts of contributions and withdrawals coincide, it is not necessary for the fund to buy or sell securities because of client contributions and withdrawals. With a “unit exchange,” securities are not actually transferred or exchanged among clients. The term “unit” simply refers to an entry in BTC’s records indicating a client’s interest in a collective fund.

In-Kind Contributions

An in-kind contribution is the standard process by which a client obtains an interest in a collective investment fund through the contribution of securities rather than cash, thus minimizing transaction costs. When a client authorizes BTC to restructure all or a portion of its portfolio into an index or model driven fund, BTC may use in-kind contributions.

When a client requests that BTC accept an in-kind contribution into a BTC collective fund, BTC’s Transition Services Group, in conjunction with the portfolio managers, analyzes the client’s existing portfolio to assess if any securities qualify to be contributed in-kind into the fund. The Transition Services Group analyzes which securities in the client’s existing portfolio match the fund’s index and how many shares of any given security can be contributed. The portfolio manager confirms whether the shares can be accepted while remaining within the normal operating guidelines of the fund. (For example, it is BTC’s policy not to accept a security into the Equity Index Fund if it would cause that stock’s holdings to be misweighted in the portfolio by more than 1 basis point in comparison to that stock’s weighting in the S&P 500 Index.) Therefore, the extent of in-kind contributions is considered in determining other trades necessary to ensure that the portfolio is tracking the appropriate index, to the extent practicable.

Following written instructions from the client, those securities that fit these criteria are then accepted into the collective index fund at the closing price on the day of contribution. BTC executes the in-kind contributions using the same pricing mechanisms as used to price cross-trades and to value the fund. This method eliminates discretionary pricing that may benefit either the client restructure account or collective fund. The client receives units in the collective fund corresponding to the aggregate value of the securities contributed.

Cross-Trades

A cross-trade is the purchase or sale of securities between two accounts or funds managed by, but not necessarily under the custody of, BTC or its minority passive shareholders. BTC uses cross-trades among eligible funds and accounts, where appropriate, to reduce transaction costs and facilitate achieving client or fund investment objectives. BTC is obligated by its fiduciary responsibilities to ensure that no cross-trading activity has created an advantage to any client or fund relative to any other client or fund. By internally matching BTC's sell orders for a particular day with its buy orders for the same day, both funds save by avoiding transaction costs.

For BTC, as a manager of index and model-driven funds, cross-trading is a method of executing a securities transaction that the portfolio manager has already included on a trade list and that would occur even if cross-trades were not permitted. After a separate decision has been made that the fund will buy or sell the security, BTC will trade that security through a cross-trade if crossing opportunities are available. BTC does not exercise subjective or discretionary investment management decisions regarding whether to buy or sell a security. Therefore, cross-trading is a cost-efficient mechanism for implementing prior decisions to buy or sell.

DOL's position is that cross-trading transactions result in violations of one or more provisions of Part 4 of Title I of the Employee Retirement Income Security Act of 1974 (ERISA). FERSA contains similar restrictions in section 8477(c)(2)(B). The basis for this position is that by representing the buyer on one side and the seller on the other in a cross-trade, a fiduciary acts on behalf of parties that have adverse interests to each other.¹² However, DOL has issued exemptions allowing certain passive investment managers of plans to cross-trade securities. BTC has such an exception with IPTE 92-11. Cross-trading is available in BTC's Equity Index,

¹² Federal Register, Volume 63, Number 64, *Notices -- Department of Labor -- Pension and Welfare Benefits Administration, Cross-Trades of Securities by Investment Managers*, 63 FR 13696

Extended Equity Market, and EAFE Equity Index Funds, but not BTC's U.S. Debt Index Fund. In 2002, DOL issued prohibited class transaction exemption 2002-12, allowing, among other provisions, the cross-trading of fixed income (e.g., U.S. Debt Index Fund) securities; however, BTC has not used that exemption as of the end of our scope period.

H. Exemptions

DOL grants certain class and individual exemptions for transactions prohibited by ERISA and FERSA. BTC's predecessor organizations received the following exemptions from DOL related to the TSP investment activities:

- IPTE 92-11 - permitted the cross-trading of index and model-driven accounts and funds and certain client restructure accounts.
- Prohibited Transaction Exemption (PTE) 2006-16 – permitted the entity to lend securities to various banks and broker-dealers under certain conditions. These banks and broker-dealers are typically “parties in interest” under ERISA. This exemption also permitted the entity to receive compensation with respect to securities lending services.
- PTE 2002-30 – this exemption permits BTC, as an affiliate of an equity owner of EquiLend, to use the EquiLend platform. The EquiLend platform is a common electronic platform provided by EquiLend Holdings LLC for negotiating securities lending transactions, identifying borrowing opportunities with pre-approved borrowers, negotiating specific loans, maintaining appropriate records, marking to market all outstanding loans, ensuring collateral maintenance, and monitoring delivery and control of collateral.

Because these exemptions were assumed from BTC's predecessors, BTC performed its operations in accordance with the exemptions discussed above during 2010

BTC also sought an exemption that permits it to enter into certain transactions with, or involving, one or more of its minority passive shareholders. This exemption (PTE 2011-17) was approved in August 2011 and was effective retroactively to December 1, 2009.

I. Tracking Error

As previously discussed, BTC's U.S. Debt Index, Equity Index, Extended Equity Market, and EAFE Equity Index Funds were designed to replicate the performance of the Barclays Capital U.S. Aggregate Bond Index; S&P 500 Index; Dow Jones U.S. Completion Total Stock Market

Index; and the MSCI EAFE Index, respectively. The difference between the performance of BTC's fund and the performance of the index it is designed to replicate is known as "tracking error."

From January 2010 through December 2010, the performance of the U.S. Debt Index Fund-E, as measured by BTC, differed from that of the Barclays Capital U.S. Aggregate Bond Index by no more than approximately 6 basis points¹³ in any month. Tracking error in the U.S. Debt Index Fund-E occurs primarily as a result of the methodology used to select a representative sample of securities for purchase by this collective trust fund. Additionally, positive tracking error can occur as a result of securities lending income received by the U.S. Debt Index Fund-E. The U.S. Debt Index Fund-E outperformed Barclays Capital U.S. Aggregate Bond Index, as measured by BTC, by approximately 19 basis points¹³ for the 12 months ending December 31, 2010.

From January 2010 through December 2010, the performance of the Equity Index Fund-EX, as measured by BTC, differed from that of the S&P 500 Index by no more than approximately 1 basis point in any month. This tracking error is primarily the result of corporate actions (e.g., mergers) and index change trades. The Equity Index Fund-EX outperformed the S&P 500 Index, as measured by BTC, by approximately 3 basis points¹³ for the 12 months ending December 31, 2010.

From January 2010 through December 2010, the performance of the Extended Equity Market Fund-E, as measured by BTC, differed from that of the Dow Jones U.S. Completion Total Stock Market Index by no more than approximately 8 basis points¹³ in any month. Because BTC only holds approximately 3,300 names out of the 4,500 in the Dow Jones U.S. Completion Total Stock Market, tracking error in the Extended Equity Market Fund-E occurs primarily because of the methodology used to select representative securities for purchase by this collective trust fund. Tracking error also occurs as a result of securities lending activities, securities litigation payments, and futures misweights. The Extended Equity Market Fund-E outperformed the Dow Jones U.S. Completion Total Stock Market Index, as measured by BTC, by 39 basis points¹³ for the 12 months ending December 31, 2010.

From January 2010 through December 2010, the performance of the EAFE Equity Index Fund-E, as measured by BTC, differed from that of the MSCI EAFE Index by no more than 77 basis points¹³ in any month except for July 2010, which differed by approximately 131 basis points¹³.

¹³ Source: BTC Performance Report for the 12 months ending December 31, 2010

This tracking error occurred as a result of the EAFE Equity Index Fund-E having to be fair valued on certain days¹⁴. Tracking error can also occur as a result of securities lending revenue and favorable tax advantage treatment for securities and unequitized cash. The EAFE Equity Index Fund-E outperformed the MSCI EAFE Index, as measured by BTC, by approximately 21 basis points¹³ for the 12 months ending December 31, 2010.

J. Proxy Voting

In accordance with FERSA Section 8438 (g), “The Board, other Government agencies, the Executive Director, an employee, a Member, a former employee and a former Member may not exercise voting rights associated with the ownership of securities by the Thrift Savings Fund.” The contract between the Agency and BTC delegates the authority to vote the Thrift Savings Fund’s proxies to BTC. BTC is required to vote the Equity Index, Extended Equity Market, and EAFE Equity Index Funds’ proxies in the best interests of the TSP participants and beneficiaries.

Although the Board does not vote proxies directly, its fiduciary responsibilities include monitoring BTC’s voting of the Equity Index, Extended Equity Market, and EAFE Equity Index Funds’ proxies. The Agency has reviewed BTC’s written guidelines for adherence to appropriate fiduciary standards. To facilitate the Agency’s monitoring of BTC’s proxy voting, BTC provides the Agency with (1) its written proxy voting guidelines when they are revised or updated, and (2) monthly reports of how it has voted each proxy issue for the applicable funds. The Agency reviews the proxy voting policy and the quarterly independent reports by Institutional Shareholder Services (ISS), a proxy voting analysis firm, to ensure that BTC has voted the proxies according to BTC’s written guidelines, and reports results quarterly at a regularly scheduled meeting for Board members.

BTC uses the proxy voting clearinghouse services of Automated Data Processing (ADP) to collect the various domestic proxy voting materials. To facilitate the proxy voting process, BTC downloads its securities holdings to ADP daily to create ballots for U.S. entities. ADP creates the proxy ballots that BTC votes via ADP’s online system, ProxyEdge. BTC reconciles position holdings against the ballots received on behalf of BTC to ensure all of the collective trust funds shares are voted. Shareholder meetings are then sorted and assigned to the relevant proxy

¹⁴ BTC fair values the EAFE Index Fund-E on days in which there is a significant market move after the close of the non-U.S. markets but prior to the time as of which the Fund’s unit value is calculated (4:00 EST). Due to this timing difference, a temporary tracking error can occur when the EAFE Index Fund-E has to be fair valued at the end of a month. However, the tracking error will typically self-correct in the subsequent month.

analyst for review. The proxy analyst votes all matters with consideration for the economic benefit to fund participants.

For non-U.S. securities (e.g., EAFE Equity Index Fund holdings), BTC relies upon interfaces between State Street and ISS to create ballots. ISS, acting as an independent voting agent, votes routine matters in accordance with BTC's proxy guidelines for non-U.S. securities. BTC receives referrals of votes from ISS on non-routine matters (e.g., capital transactions, mergers, and special situations) which BTC then votes internally. BTC also performs periodic reviews of the proxy voting by ISS for its non-U.S. securities to ensure adherence to its written guidelines.

K. Audits and Regulatory Reviews

BlackRock¹⁵, its subsidiaries, and joint venture operations are subject to examinations and audits by government regulatory agencies, independent public accountants, and internal auditors. From January 2009 through December 2010, examinations and audits related to BTC included the following:

- * PricewaterhouseCoopers LLP -- financial statement and internal control audits of BlackRock's Collective Trust Funds for the years ended December 31, 2010 and 2009;
- * PricewaterhouseCoopers LLP -- financial statement audit of BlackRock Institutional Trust Company, N.A. for the years ended December 31, 2010 and 2009;
- * PricewaterhouseCoopers LLP -- report on the processing of transactions for the years ended December 31, 2009 and 2008;
- * BlackRock's Internal Audit Group -- various reviews of internal controls; and
- * The Office of the Comptroller of the Currency, examination cycle ending December 31, 2009).

We reviewed the reports related to the examinations and audits listed above. No matters were noted during our review of these reports that would impact our conclusions on the performance audit objectives listed in Section I.A of this report.

¹⁵ BlackRock is the parent company of BTC.

J. TSP Investment Statistics

TSP Fund Balances and Returns

As of December 31, 2010, the largest portion of TSP investments was held in the C Fund. The chart below presents a summary of TSP investments held by the G, F, C, S, I, and L Funds on December 31, 2010, and the dollar changes in these balances from December 31, 2009.

Exhibit II-5

TSP Fund	Fund Balances December 31, 2010 (unaudited)	% of Total	Increase (Decrease) in Fund Balances from December 31, 2009
G	\$116,955 million	41.62%	\$ 7,503 million
F	16,986 million	6.05%	2,267 million
C	68,847 million	24.50%	9,900 million
S	24,145 million	8.59%	8,674 million
I	19,153 million	6.82%	1 million
L Income	5,579 million	1.99%	4,332 million
L 2010 ¹⁶	n/a	n/a	(9,614) million
L 2020	13,332 million	4.74%	3,718 million
L 2030	9,126 million	3.25%	2,690 million
L 2040	6,860 million	2.44%	2,143 million
Total¹⁷	\$280,983 million	100.00%	\$31,614 million

Source: Federal Retirement Thrift Investment Board internal reports.

The table below compares the TSP Fund returns for the G, F, C, S, I, and L Funds for the 12-month periods ending December 31, 2010, 2009 and 2008.

¹⁶ The L 2010 Fund was retired on December 31, 2010.

¹⁷ The balances of the L Funds are invested in the underlying five funds (i.e., G, F, C, S, and I Funds).

Rates of Return on TSP Investment Funds			
(unaudited)			
TSP Fund	12 Months Ended December 31, 2010	12 Months Ended December 31, 2009	12 Months Ended December 31, 2008
G Fund	2.81%	2.97%	3.75%
F Fund	6.71%	5.99%	5.45%
C Fund	15.06%	26.68%	(36.99)%
S Fund	29.06%	34.85%	(38.32)%
I Fund	7.94%	30.04%	(42.43)%
L Income Fund	5.74%	8.57%	(5.09)%
L 2010 Fund	5.65%	10.03%	(10.53)%
L 2020 Fund	10.59%	19.14%	(22.77)%
L 2030 Fund	12.48%	22.48%	(27.50)%
L 2040 Fund	13.89%	25.19%	(31.53)%

Source: Federal Retirement Thrift Investment Board, Thrift Savings Plan Fact Sheets.

III. FINDINGS

We performed procedures related to the Thrift Savings Plan (TSP) Fixed Income Index Investment Fund (F Fund), Common Stock Index Investment Fund (C Fund), Small Capitalization Stock Index Investment Fund (S Fund), and International Stock Index Investment Fund (I Fund) investment management operations while conducting a performance audit primarily at the offices of BlackRock Institutional Trust Company, N.A. (BTC) for the period January 1, 2010 through December 31, 2010. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel (Appendix A), reviewing key reports and documentation (Appendix B), and observing selected procedures.

We conclude that the TSP investment management operations described below complied with Federal Employees' Retirement System Act of 1986, as amended, and with applicable Federal Retirement Thrift Investment Board (Board) regulations and bulletins for the period January 1, 2010 through December 31, 2010. During this period, we also noted that BTC implemented certain procedures to (1) promptly and accurately deposit TSP investments in the authorized investment funds; (2) properly summarize and report TSP investment transactions to the Board's Staff (Agency), including investment management fees relating to the TSP investment funds; (3) accurately report to the Agency the daily yield on each investment fund, less authorized management fees; (4) invest index investment funds in a portfolio that matches the indices selected by the Board; (5) comply with the terms of applicable U.S. Department of Labor individual and class exemptions; (6) vote proxies of the C, S, and I Funds in accordance with its stated guidelines; and (7) accurately and timely process TSP investment transactions.

We noted no prior recommendations. The current engagement produced no new recommendations.

KEY PERSONNEL INTERVIEWED

While performing fieldwork, we interviewed the following key personnel regarding operations at BlackRock Institutional Trust Company, N.A.:

A. BlackRock Institutional Trust Company, N.A.

[REDACTED]	Managing Director, Chief Information Security Officer, BlackRock
[REDACTED]	Vice President, Business Operations
[REDACTED]	Managing Director; Chief Trust Officer, BTC
[REDACTED]	Managing Director, Portfolio Management Group
[REDACTED]	Managing Director, Aladdin & Technology Group
[REDACTED]	Managing Director, Global Client Group
[REDACTED]	Vice President, Business Operations
[REDACTED]	Managing Director, Global Head of Corporate Governance
[REDACTED]	Managing Director, Portfolio Management Group
[REDACTED]	Managing Director, Legal & Compliance; General Counsel, BTC
[REDACTED]	Chief Operating Officer, BlackRock; Chief Executive Officer, BTC
[REDACTED]	Vice President, Portfolio Management Group
[REDACTED]	Associate, Legal & Compliance
[REDACTED]	Associate, Portfolio Compliance Group
[REDACTED]	Vice President, Securities Lending Product Development and Trade Support
[REDACTED]	Director, Cash & Securities Lending
[REDACTED]	Managing Director, Co-Head, Cash & Securities Lending
[REDACTED]	Director, Legal & Compliance

KEY PERSONNEL INTERVIEWED, CONTINUED

[REDACTED]	Managing Director, Aladdin & Technology Group, Information Security
[REDACTED]	Managing Director, Portfolio Management Group
[REDACTED]	Director, Portfolio Compliance Group
[REDACTED]	Vice President, Internal Audit
[REDACTED]	Director, Securities Lending Trading
[REDACTED]	Managing Director, Cash & Securities Lending
[REDACTED]	Managing Director, Internal Audit
[REDACTED]	Managing Director, Risk & Quantitative Analysis Group; Chief Fiduciary Officer, BTC
[REDACTED]	Director, Portfolio Management Group
[REDACTED]	Director, Internal Audit
[REDACTED]	Managing Director, Business Operations
[REDACTED]	Managing Director, Business Operations; Chief Operating Officer, BTC
[REDACTED]	Managing Director, Legal & Compliance; Chief Compliance Officer, BTC
[REDACTED]	Director, Portfolio Management Group
[REDACTED]	Managing Director, Global Client Group
[REDACTED]	Audit Committee Chair, BTC
[REDACTED]	Director, Portfolio Management Group

B. Federal Retirement Thrift Investment Board's Staff (Agency)

[REDACTED]	Contracting Officer
[REDACTED]	Controller, Office of Finance
[REDACTED]	Chief Accounting Officer
[REDACTED]	Financial Analyst
[REDACTED]	Chief Investment Officer

KEY PERSONNEL INTERVIEWED, CONTINUED

B. Department of Labor, Employee Benefits Security Administration

[REDACTED]

Chief, Division of Accounting Services

[REDACTED]

Senior Auditor, Division of FERSA

Compliance

[REDACTED]

Pension Law Specialist, Office of

Regulations and Interpretations

KEY DOCUMENTATION AND REPORTS REVIEWED

Reports:

BlackRock Institutional Trust Company, Collective Trust Funds for Employee Benefit Trusts, Report on Audits of Financial Statements for the years ended December 31, 2009 and 2010

BlackRock Institutional Trust Company, N.A., (a wholly-owned indirect subsidiary of Barclays Bank PLC), Consolidated Financial Statements, December 31, 2010 and 2009

BlackRock Institutional Trust Company, SAS 70 Report, Report on the Processing of Transactions, years ended December 31, 2008 and 2009

Institutional Shareholder Services, Inc., Proxy Analysis quarterly reports issued during the 12-month period of January 1, 2010 through December 31, 2010

State Street Corporation, SAS 70 Report, years ended October 31, 2008, 2009, and 2010

BlackRock Solutions, SAS 70 Report, years ended September 30, 2008 and 2009

The Office of the Comptroller of the Currency, examination cycle ending December 31, 2009

The Office of the Comptroller of the Currency, examination cycle ending December 31, 2008

The Office of the Comptroller of the Currency, examination cycle ending December 31, 2007

The Office of the Comptroller of the Currency, examination cycle ending December 31, 2006

BlackRock Institutional Trust Company Internal Audit Group Reports:

2010 Audit Plans

A listing of Internal Audit Reports issued from January 1, 2010 through December 31, 2010

Internal Audit Policies and Procedures Manual

Global Securities Lending dated January 28, 2011

ERISA MPS Exemption Compliance, December 17, 2010

Scientific Active and Index Equity Trading, November 30, 2010

Regulation 9, dated October 29, 2010

Audit of Cash Management (US/EMEA), October 6, 2010

Client Order Management (legacy BGI Americas and EMEA), July 29, 2010

Audit of Personal Trading Activities, June 7, 2010

Global Credit Group-Counterparty Credit Risk Management, August 29, 2008

Global Fixed Income and Fixed Income Trading, July 15, 2008

Audit of U.S. Crossing, November 30, 2007

BlackRock Institutional Trust Company Internal Documents:

BlackRock Institutional Trust Company's (BTC) Organizational Chart

BTC's Global Directory

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

BTC's Code of Business Conduct and Ethics

BTC's Advisory Employee Investment Transaction Policy

BTC Publication - Managing ERISA Assets: A Comprehensive Guide to ERISA Exemptions
Used by BTC

BTC Publication - Information about BTC: *16 Things You Should Know*

BTC Proposed Exemption Language

Amended and Restated Limited Liability Company Agreement of Equilend Holdings LLC

Overview of Risk and Quantitative Analysis

Employee Benefits Security Administration Compliance Program

BTC, Schedule of Transaction Crossing Statistics U.S. Debt Index Fund for the year ended
December 31, 2010

BTC, Schedule of Transaction Crossing Statistics Equity Index Fund for the year ended
December 31, 2010

BTC, Schedule of Transaction Crossing Statistics Extended Market Index Fund for the year
ended December 31, 2010

BTC, Schedule of Transaction Crossing Statistics EAFE Index Fund for the year ended
December 31, 2010

Security Cross Reference Report, U.S. Debt Index as of December 31, 2010

Security Cross Reference Report, Equity Index as of December 31, 2010

Security Cross Reference Report, Extended Market Index as of December 31, 2010

Security Cross Reference Report, EAFE Index as of December 31, 2010

Global Credit and Market Risk Group, Counterparties Approved for Securities Lending Trading
in the San Francisco Office

Global Credit and Market Risk Group, Counterparties Approved for Securities Lending Letters
of Credit

U.S. Debt Index Fund, Portfolio Profile, as of December 31, 2010

Historical Performance Analysis (Summary of Results and Month-to-Month Results) - U.S.
Debt Index Fund, as of December 31, 2010

Historical Performance Analysis (Summary of Results and Month-to-Month Results) - Equity
Index Fund, as of December 31, 2010

Historical Performance Analysis (Summary of Results and Month-to-Month Results) - Extended
Market Index Fund, as of December 31, 2010

Historical Performance Analysis (Summary of Results and Month-to-Month Results) - EAFE
Index Fund, as of December 31, 2010

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

Percentages of the U.S. Debt Index, Equity Index, Extended Market Index, and EAFE Index Funds, owned by the F, C, S, and I Funds, respectively, as of December 31, 2010

Short-term Investment Funds Overview and Guidelines

Global Credit and Market Risk Group, Risk Principles

Global Credit and Market Risk Group, Counterparties Credit Exposure

Transition Services Policies and Procedures Manual

Domestic Equity Portfolio Policy and Procedures Manual

Proxy Voting Guidelines issued January 1, 2010 through December 31, 2010

BTC Proxy Voting Reports from January 1, 2010 through December 31, 2010

BTC Securities Lending Procedures for Lending to Affiliates

BTC, Federal Employees Thrift Savings Plan - F Fund Transaction Summary Reports, January 1, 2010 through December 31, 2010

BTC, Federal Employees Thrift Savings Plan - C Fund Transaction Summary Reports, January 1, 2010 through December 31, 2010

BTC, Federal Employees Thrift Savings Plan - S Fund Transaction Summary Reports, January 1, 2010 through December 31, 2010

BTC, Federal Employees Thrift Savings Plan - I Fund Transaction Summary Reports, January 1, 2010 through December 31, 2010

BTC, Federal Employees Thrift Savings Plan – F, C, S, and I Fund Monthly Account Balances, January 1, 2010 through December 31, 2010

Electronic listing of cross-trade transactions from January 1, 2010 through December 31, 2010 (for all funds applicable to TSP)

Electronic listing of security lending transactions from January 1, 2010 through December 31, 2010 (for all funds applicable to TSP)

Electronic listing of in-kind transactions from January 1, 2010 through December 31, 2010 (for all funds applicable to TSP)

U.S. Compliance Risk Matrix

U.S. Compliance Program

U.S. Compliance Report, Monthly Status Reports, January 1, 2010 through December 31, 2010

S&P 500 Index Composition as of December 31, 2010

Barclays U.S. Debt Index Composition as of December 31, 2010

Dow Jones Wilshire 4500 Index Composition as of December 31, 2010

MSCI EAFE Index Composition at December 31, 2010

Composition of BTC's Equity Index Fund (Fund "A") as of December 31, 2010

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

Composition of BTC's Extended Index Fund (Fund "A") as of December 31, 2010

Composition of BTC's EAFE Index Fund (Fund "A") as of December 31, 2010

Composition of BTC's Debt Index Fund (Fund "A") as of December 31, 2010

Report of Future Positions for the U.S. Debt Index, Equity Index, Extended Market Index, and EAFE Index as of December 31, 2010

Client Holdings, Federal Retirement Thrift - Fund F Report showing monthly account balances for the period of January 1, 2010 through December 31, 2010

Client Holdings, Federal Retirement Thrift - Fund C Report showing monthly account balances for the period of January 1, 2010 through December 31, 2010

Client Holdings, Federal Retirement Thrift - Fund S Report showing monthly account balances for the period of January 1, 2010 through December 31, 2010

Client Holdings, Federal Retirement Thrift - Fund I Report showing monthly account balances for the period of January 1, 2010 through December 31, 2010

Regulation 9 (Reg-9) Annual Review for the F, C, S, and I Funds for 2010

FERS Systems Overview - most recent since December 31, 2010

Loan Positions by Account Report for the U.S. Debt Index Fund as of December 31, 2010

Loan Positions by Account Report for the U.S. Equity Index Fund as of December 31, 2010

Loan Positions by Account Report for the Extended Market Index Fund as of December 31, 2010

Loan Positions by Account Report for the EAFE Index Fund as of December 31, 2010

Security Lending Income Performance Report for U.S. Debt Index Fund as of December 31, 2010

Security Lending Income Performance Report for U.S. Equity Index Fund as of December 31, 2010

Security Lending Income Performance Report for U.S. Extended Equity Index Fund as of December 31, 2010

Security Lending Income Performance Report for EAFE Index Fund as of December 31, 2010

Audit Committee meeting minutes for the period January 1, 2010 to December 31, 2010

Cross Trading-Closing Price and Fees Testwork for the period March 1, 2009 to March 5, 2010

Cross Trading-Trigger Events Test for the period March 1, 2009 to March 5, 2010

PTE 92-11 Closing Price and Fees Testing dated September 2010

BTC Annual Compliance Acknowledgement for Year 2010

Report of the Exemption Compliance Officer to the Independent Monitor for Fourth Quarter 2010

KEY DOCUMENTATION AND REPORTS REVIEWED, CONTINUED

Laws and Regulations:

Federal Employees' Retirement System Act of 1986, and Related Amendments

Department of Labor Individual Prohibited Transaction Exemption 92-11

Department of Labor Prohibited Transaction Exemption 2006-16

Department of Labor Individual Prohibited Transaction Exemption 2002-30

U.S. Code of Federal Regulations, Title 29, Chapter XXV, Part 2509, Interpretive Bulletins relating to the Employee Retirement Income Security Act of 1974

Other Documents:

TIB-2006-C-003, Contract for Investment Management and Custodian Services for the C, S, I & F Funds, effective September 5, 2006 and related contract modifications

ENTRANCE AND EXIT CONFERENCE ATTENDEES

An overall entrance conference, covering the entire FY 2011 Thrift Savings Plan (TSP) audit plan and proposed schedule, was held at the Agency on October 18, 2010. Attendees were as follows:

A. Federal Retirement Thrift Investment Board's Staff (Agency)

[REDACTED]	Chief Financial Officer
[REDACTED]	Director, Office of Benefit Services
[REDACTED]	Chief Information Officer
[REDACTED]	Controller, Office of Finance
[REDACTED]	Internal Auditor

B. Department of Labor, Employee Benefits Security Administration

[REDACTED]	Senior Auditor, FERSA Compliance
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C. KPMG LLP

[REDACTED]	Partner
[REDACTED]	Manager
[REDACTED]	Manager
[REDACTED]	Computer System Analyst

ENTRANCE AND EXIT CONFERENCE ATTENDEES, CONTINUED

An entrance conference covering TSP investment management operations at BlackRock Institutional Trust Company, N.A. (BTC), was held on January 31, 2011 at BTC. Attendees were as follows:

A. Federal Retirement Thrift Investment Board's Staff (Agency) (via conference call)

[REDACTED] Controller, Office of Finance

B. BlackRock Institutional Trust Company, N.A.

[REDACTED] Managing Director, Deputy General
Counsel / Head of U.S. Legal
[REDACTED] Director, Legal & Compliance

C. Department of Labor, Employee Benefits Security Administration (via conference call)

[REDACTED] Chief, Division of Accounting Services
[REDACTED] Senior Auditor, Division of FERSA
Compliance

D. KPMG LLP

[REDACTED] Partner
[REDACTED] Manager
[REDACTED] Senior Accountant

ENTRANCE AND EXIT CONFERENCE ATTENDEES, CONTINUED

An exit conference was held on August 4, 2011, with BTC personnel and the Agency via conference call. Attendees were as follows:

A. Federal Retirement Thrift Investment Board's Staff (Agency)

██████████	Controller, Office of Finance
██████████	Senior Internal Auditor

B. BlackRock Institutional Trust Company, N.A.

██████████	General Counsel
██████████	Director, Legal & Compliance
██████████	Managing Director, Global Client Group

C. Department of Labor, Employee Benefits Security Administration

██████████	Senior Auditor, FERSA Compliance
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D. KPMG LLP

██████████	Partner
██████████	Manager



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

GREGORY T. LONG
Executive Director

December 7, 2011

Mr. Ian Dingwall
Chief Accountant
Employee Benefits
Security Administration
United States Department of Labor
Suite 400
122 C Street, N.W.
Washington, D.C. 20001-2109

Dear Ian:

This is in response to your email of November 23, 2011, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Investment Management Operations, dated May 26, 2011. My comments with respect to this report are enclosed.

We are pleased to note that the auditors concluded during the FY2011 audit that the TSP investment management operations complied with FERSA and with applicable Board regulations and bulletins for the period January 1, 2010 through December 31, 2010. We are very pleased to note that there are no audit recommendations.

Thank you once again for the constructive approach that the Department of Labor and its contractors are taking in conducting the various audits of the TSP. The information and recommendations that are developed as a result of your reviews are useful to the continued improvement of the Thrift Savings Plan. I also want to thank you for your continuing efforts to close prior year recommendations.

Very truly yours,

A handwritten signature in black ink, appearing to read "G. Long".

Gregory T. Long

Enclosure

Executive Director's Staff Comments on the
Employee Benefits Security Administration's
Performance Audit of the Thrift Savings Plan
Investment Management Operations
Dated May 26, 2011

Recommendations to Address Fundamental Controls:

2011 Recommendations: None

Recommendations to Enhance Efficiency and Effectiveness:

2011 Recommendations: None

Recommendations – Other:

2010 Recommendations: None