



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## AGENDA NOTICE OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS AND AUDIT COMMITTEE

14<sup>th</sup> Floor Conference Room  
3300 North Central Avenue  
Phoenix, AZ 85012

October 7, 2014  
10:30 a.m. Arizona Time

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Operations and Audit Committee (OAC) and to the general public that the ASRS OAC will hold a meeting open to the public on Tuesday, October 7, 2014, beginning at 10:30 a.m. Arizona Time in the 14th Floor Conference Room of the ASRS office, 3300 North Central Avenue, Phoenix, AZ 85012. Trustees of the Committee may attend either in person or by telephone conference call.

This is a regularly scheduled meeting of the OAC; however, due to possible attendance by other ASRS Board Trustees, this meeting may technically become a meeting of the Board or one of its committees. Actions taken will be consistent with OAC governance procedures. Actions requiring Board authority will be presented to the full Board for final decision.

The Chair may take public comment during any agenda item. If any member of the public wishes to speak to a particular agenda item, they should complete a request to speak form indicating the item and provide it to the Committee Administrator.

This meeting will be teleconferenced to the ASRS Tucson office conference room at 7660 E. Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks ..... Mr. Jeff Tyne  
Operations and Audit Committee Chair
2. Approval of the August 12, 2014 Minutes of the OAC Public Meeting and Executive Sessions ..... Mr. Jeff Tyne
3. Presentation Discussion and Appropriate Action Regarding the Allocation of Retrospective Rate Adjustment Agreement (RRAA) Funds ..... Mr. Paul Matson  
Director  
..... Mr. Anthony Guarino  
Deputy Director and Chief Operations Officer  
..... Mr. Pat Klein  
Assistant Director External Affairs

- 4. Presentation, Discussion and Appropriate Action Regarding a Web Steering Committee Status Update ..... Mr. Anthony Guarino  
..... Mr. Dave King  
Assistant Director Member Services  
..... Ms. Sara Orozco  
Manager Strategic Planning and Analysis  
..... Mr. David Cannella  
Manager of Communications and Media Relations  
..... Ms. Pamela Vozza  
Digital Communications Officer  
..... Mr. Trent Kendall  
Project Manager Technology Services

- 5. Presentation, Discussion and Appropriate Action Regarding the Audit Budget Update for the Q1/FY2015 Audit Plan ..... Mr. Bernard Glick  
Chief Internal Auditor

- 6. Review of Recently Conducted Audits
  - Coconino Community College
  - ASRS Spreadsheet Review
  - New West Charter School
  - Town of Hayden
  - Alter Valley School District..... Mr. Anthony Guarino  
..... Mr. Bernard Glick

- 7. Requests for Future Agenda Items..... Mr. Jeff Tyne  
..... Mr. Anthony Guarino

- 8. Call to the Public ..... Mr. Jeff Tyne

Those wishing to address the ASRS Committee are required to complete a Request to Speak form before the meeting indicating their desire to speak. Request to Speak forms are available at the sign-in desk and should be given to the Committee Administrator. Trustees of the Committee are prohibited by A.R.S. § 38-431.01(G) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the Committee Chair may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

- 9. Adjournment of the OAC

A copy of the agenda background material provided to the OAC Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (<https://www.azasrs.gov/web/BoardCommittees.do>) approximately 48 hours prior to the meeting.

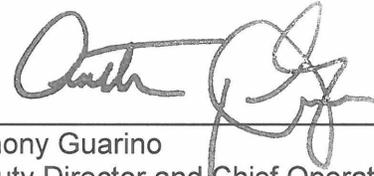
Persons(s) with disabilities may request a reasonable accommodation such as a sign language interpreter or alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated September 30, 2014

ARIZONA STATE RETIREMENT SYSTEM

  
\_\_\_\_\_  
Gayle Williams  
Committee Administrator

9/30/14  
Date

  
\_\_\_\_\_  
Anthony Guarino  
Deputy Director and Chief Operations Officer

9/30/2014  
Date





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*Paul Matson*  
Director

## MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS AND AUDIT COMMITTEE

HELD ON  
Tuesday, August 12, 2014  
10:30 a.m., Arizona Time

The Operations and Audit Committee (OAC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jeff Tyne, Chair, called the meeting to order at 10:30 a.m.

### 1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jeff Tyne, Chair  
Mr. Mike Smarik, Vice-chair  
Dr. Richard Jacob

Absent: Mr. Brian McNeil

A quorum of the Committee was present for the purpose of conducting business.

### 2. Approval of the Public Session and Executive Session of the April 30, 2014 Minutes of the OAC Meeting

**Motion:** Mr. Michael Smarik moved to approve the public session and executive session of the April 30, 2014 OAC meeting. Dr. Richard Jacob seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

### 3. Presentation, Discussion and Appropriate Action Regarding the 2015 ASRS Retiree Medical Benefits Program Request for Proposal (RFP)

Mr. Paul Matson, Director, presented the item by commenting on the important items considered by the Evaluation Committee when reviewing the contract submissions for a new contract. The items included 1) Benefit coverage, 2) Access/Network, 3) Premium cost, and 4) Medical cost ratio.

Dr. Richard Jacob stated he served on the Evaluation Committee and was disappointed there was not more competition for the contract and he would like to see more offers received the next time the ASRS goes out to bid. Mr. Paul Matson, stated that staff concurs with Dr. Jacob and feels part of the reason for so few offers is the state of healthcare in the U.S. right now. Mr. Matson also mentioned that though this is a five-year contract, to begin on January 1, 2015, there are four one-year renewals, and the ASRS does not need to remain in the contract for the full five years if other options become available.

**Motion:** Mr. Mike Smarik moved to go into Executive Session for the purpose of considering or discussing records exempt by law from public inspection. Dr. Richard Jacob seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

The Committee convened to Executive Session at 10:35 a.m.

The Committee reconvened to Public Session at 10:54 a.m.

**Motion:** Mr. Mike Smarik moved to accept the Evaluation Committee's recommendation and forward it to the ASRS Board of Trustees for approval. Dr. Richard Jacob seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

#### **4. Presentation, Discussion and Appropriate Action Regarding an ASRS Risk Assessment of Agency Technology Development, Security, and Continuity of Operations**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, provided a topic overview, stating the purpose of the presentation was to provide a candid assessment of the ASRS' risks and the goals established to mitigate those risks. Mr. Guarino introduced Mr. Kent Smith, Assistant Director Technology Services Division, who discussed the assessment of the ASRS' risks as well as the strategies planned or in place to control these risks. Further discussion of agency risk assessments and remediation plans required discussion in Executive Session.

**Motion:** Mr. Mike Smarik moved to go into Executive Session for the purpose of considering or discussing records exempt by law from public inspection. Dr. Richard Jacob seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

The Committee convened to Executive Session at 11:16 a.m.

The Committee reconvened to Public Session at 12:00 p.m.

#### **5. Presentation, Discussion and Appropriate Action Regarding the ASRS Budget Related Topics Including:**

- A. Presentation of the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plan for Fiscal Year (FY) 2015**
- B. Presentation of the ASRS Appropriated Budget Request and Estimated ASRS Administrative and Investment Spending Plans for FY 2016 and FY 2017**

Ms. Martha Rozen, Chief of Administrative Services, explained the budget numbers and the materials presented for this agenda item. Ms. Rozen reviewed the materials included for 5B, explaining the ASRS is requesting only the FY 2016 budget amount at this time.

**Motion:** Dr. Richard Jacob moved to accept and forward to the ASRS Board an appropriated budget request for FY 2016 in the amount of \$28,106,200; an administrative spending plan of \$33,137,200 within a total spending plan of \$315,036,200, and an appropriated budget request for FY 2017 in the amount of \$27,659,200; an administrative spending plan of \$32,779,200 within a total spending plan of \$337,410,200. Mr. Mike Smarik seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

The order of the agenda was changed to address the following item.

**6. Presentation, Discussion and Appropriate Action Regarding Elimination of One Audit From Year Two Audit Plan in Order to Test Census Data for the External Auditor of the ASRS**

Mr. Bernard Glick, Chief Internal Auditor, requested the Committee approve removal of the WEB Services Social Media Audit from the ASRS FY15 Audit Plan and replace it with the ASRS Compliance with GASB 68 Census Audit. The WEB Services Social Media Audit would then be moved to the FY16/17 Biennial Audit Plan.

In 2012, the Governmental Accounting Standards Board (GASB) recognized as the authoritative body for establishing and improving financial accounting and reporting standards of state governmental entities, issued "GASB 68." GASB 68 addresses the role of census data for multiple-employer-defined benefit plans and the external auditors' responsibility for such census data.

To comply with GASB 68, the ASRS external auditors, Clifton, Larson Allen, will select 27 ASRS employers to perform the necessary census data tests (age of member, date of membership, salary). To lower the cost of the external auditor performing this work, the ASRS Internal Audit Division (IAD) will assist by performing the field work under the supervision of Clifton, Larson Allen. This GASB field work will require 300 hours of IAD audit time, which requires moving the WEB Services Social Media Audit to the 2016-17 Biennial Audit Plan.

**Motion:** Mr. Mike Smarik moved to remove the WEB Services Social Media Audit from the ASRS FY15 Audit Plan and replace it with the ASRS Compliance with GASB 68 Census Audit and move the WEB Services Social Media Audit to the FY16-17 Biennial Audit Plan. Dr. Richard Jacob seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Mr. Mike Smarik departed the meeting at 12:24 p.m., resulting in a loss of a quorum for the meeting.

**7. Presentation, Discussion and Appropriate Action Regarding Approaches and Legal Implications of Service and Account Balance Reinstatement for Members Who May be Defrauded**

Mr. Guarino introduced Ms. Nancy Bennett, Chief Financial Officer, who reviewed the current Risk Assessment on Disbursements. Ms. Sarah Korish, Member Services Program Manager, explained the strength of the ASRS controls for member refunds.

Ms. Bennett discussed indemnity issues raised as a result of a recent alleged fraud against a member account. Dr. Jacob asked if the staff was looking for input or guidance on how to handle this type of alleged fraud. Mr. Matson clarified that yes, staff was looking for input and guidance to result in a policy on how to handle member account fraud.

Dr. Jacob said he sees the member as well as the ASRS as victims if there is member account fraud; the risk and the loss are shared. He then stated that shared risk is changed if either the member or the ASRS did not act prudently with the account information, resulting in the fraud.

Mr. Jeff Tyne, Chair of the Committee requested Ms. Jothi Beljan, Assistant Attorney General, to provide legal advice regarding this agenda item. The Committee went into Executive Session for this advice.

Because the quorum was lost with the departure of Mr. Smarik, no motion was made to go into Executive Session.

The Committee convened to Executive Session at 12:38 p.m.

The Committee reconvened to Public Session at 12:55 p.m.

## **8. Presentation, Discussion and Appropriate Action Regarding the Audit Update for Year One of the Audit Plan**

Mr. Glick presented the status of audit hours used for the FY 2014 Audit Plan.

## **9. Review of Recently Conducted Audits**

Mr. Glick reviewed the following audits conducted by the Internal Audit Division:

- **Graham County Employer Audit**

The audit revealed Graham County did not remit ASRS contributions for thirty-eight employees who worked or were engaged to work at least twenty hours per week for at least twenty weeks in one or more fiscal years. The County appealed the audit finding, stating they believed there were only six staff for which the county owes contributions and not the full 38 staff identified in the audit report.

ASRS Management found the County's explanation reasonable and acceptable in light of established protocols to administer the hours worked for new employees; that new employees in select county positions are enrolled in CORP after a probationary period, not the ASRS.

- **ASRS Investment Management Division (IMD) Order Management System**

IMD's Bloomberg AIM Order Management System was tested. The system electronically links portfolio holdings to market data as well as the custodial bank and has reduced errors, expedited trade processing, and compliance review. The audit revealed potential segregation of duties (SOD) conflicts with regard to AIM system administration and equity trades being approved by equity staff rather than fixed income staff.

Management will implement the IAD recommendations regarding potential SOD conflicts.

- **Long Term Disability Program**

IAD completed the audit of the ASRS Long-Term Disability (LTD) program and related processes on January 31, 2014. The audit objectives were: 1) the reliability and integrity of information; 2) compliance with policies, plans, procedures, laws, and regulations; 3) the safeguarding of assets; 4) the economical and efficient use of resources; 5) the accomplishment of established objectives and goals for operations and programs.

The audit resulted in six recommendations to staff; Management agreed to many of them and has already taken steps through scheduled IT projects as well as staff training to remedy them.

## **10. Request for Future Agenda Items**

There were no items requested by Committee members.





Confidential  
meeting  
materials  
were in this  
agenda item





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Paul Matson  
Director

## MEMORANDUM

**TO:** The Arizona State Retirement System (ASRS) Operations and Audit Committee (OAC)

**FROM:** Mr. Paul Matson, Director  
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer  
Mr. Patrick M. Klein, Assistant Director, External Affairs  
Mr. Edward D. Rapoport, ASRS Benefits Administrator

**DATE:** September 30, 2014

**RE:** **Agenda Item #3** Presentation, Discussion and Appropriate Action Regarding the Allocation of Retrospective Rate Adjustment Agreement (RRAA) Funds

### Purpose

To make Trustees aware of the availability of RRAA funds and to discuss possible uses.

### Recommendation

Informational only; no action required.

### Background

Beginning in 2011, and applicable to subsequent plan years, the ASRS negotiated an annual "medical loss ratio" agreement with UnitedHealthcare (UHC), our retiree medical plans provider. This agreement provides a maximum level of retention by UHC of 7% of total plan revenues. From this retention, UHC pays all administrative, legal and marketing expenses, staff salaries, and other company expenses. Remaining revenues from the 7% are deemed to be profit for UHC.

This agreement stipulates that 93% of plan revenues be used for plan expenses associated with medical, hospital, prescription medications, and ancillary medical services. If these plan expenses do not result in the agreed-to 93% medical loss ratio (plan expenses / total revenues), then the ASRS receives a reimbursement of unused revenue up to the 93% level. If plan expenses exceed the 93% loss ratio, UHC's 7% is decreased until all plan expenses are paid.

Below is a chart showing the results of this agreement over the three calendar (plan) years it has been in effect.

Plan Year	Total Revenues	Total Expenses	Gross Margin	Medical Loss Ratio*	RRAA Reimbursement
2011	\$387,134,682	\$344,540,049	\$42,594,633	89.0%	\$15,494,699
2012	\$418,007,008	\$362,920,992	\$55,086,016	86.8%	\$25,825,525
2013	\$436,684,756	\$376,268,524	\$60,416,232	86.2%	\$29,848,299
					<u>\$71,168,523</u>

\*The medical loss ratio varies widely from each of our medical plans and varies by plan each year. For example, for 2013, the loss ratio for the Medical Advantage HMO plan was 86.2%; for the non-Medicare Choice (HMO) and Choice Plus (PPO) plans, the loss ratio was 96.3%; and for the Senior Supplement plan, the loss ratio was 67.4%. Aggregating those ratios produce a program loss ratio of 86.2%.

While total enrollment has grown over the years, enrollment in the non-Medicare plans has decreased. The high monthly premiums associated with these plans (\$713 for Choice (HMO) and \$999 for Choice Plus (PPO)) have caused retirees to look elsewhere for more affordable coverage. Now with the advent of the Affordable Care Act and the implementation of the Arizona Healthcare Marketplace (the exchange), retirees have new options for coverage not available previously. It is expected that further non-Medicare enrollment declines will occur.

**ASRS Retiree Medical Plans Enrollment\*  
2010 – 2014**

Year	Non-Medicare		Medicare		Total
	Choice (HMO)	Choice Plus (PPO)	Senior Supplement	Medicare HMO	
2010	7,902	3,242**	10,085	19,969	41,198
2011	13,143***	182****	9,864	21,341	44,530
2012	13,069	273	10,258	22,014	45,614
2013	13,751	286	10,771	22,759	47,567
2014 (as of 8/1/14)	12,252	252	11,466	23,568	47,538

\* Enrollment includes PSPRS, EORP, CORP and UORP retirees.

\*\* UnitedHealthcare Choice Plus PPO replaced the PacifiCare PPO.

\*\*\* UnitedHealthcare Choice HMO (an in-state, in-network only plan) replaced the PacifiCare HMO and is now the only option for in-state non-Medicare retirees.

\*\*\*\* UnitedHealthcare Choice Plus PPO is now available only for out-of-state non-Medicare retirees.

Though the ASRS has been receiving increasing funds because of this agreement, this is not the intention or the objective. It is hoped that UHC fairly underwrites each of its retiree medical plans so that proper premiums are paid by our members for the benefits they receive. However, the effective use, analysis, and management of medical management programs (such as case management, disease management, chronic obstructive pulmonary disease, cancer support, and coronary artery disease programs), utilization, medical trends expense, and drug costs play a significant role in each year's financial outcome. In short, the better the plans are managed, the better the outcome.

The ASRS has experienced retrospective reimbursements, that otherwise would have been retained by UHC, due to several factors including:

- UHC uses conservative underwriting methodologies in setting premium rates.
- The Centers for Medicare and Medicaid Services (CMS) gave credit to UHC in a greater percent than usually expected due to UHC's ability to effectively manage health care costs and in UHC's favorable containment/outcome activities.

The ASRS purposely wanted flexibility in the agreement and, therefore, did not specify how these RRAA funds are to be used or specify over what period of time funds must be expended. Unlike the Early Retiree Reinsurance Program (ERRP) funds which were provided by the U.S. Department of Health and Health Services to mitigate non-Medicare premiums in 2013, 2014 and will also be used in 2015, the RRAA funds have no pre-determined use.

ASRS staff have reviewed several options regarding the potential uses of RRAA funds including but not limited to the health benefit supplement account, augmenting our medical plans, expanded administration and services, and self-funding. Each of these potential uses may stand-alone or combined with other options. These options are highlighted below:

### **Premium Benefit**

- HBS Account Funded Status – The HBS account’s funded status would increase from 89.6% to 94.3% if all RRAA funds were deposited into that account.
- Increase Premium Benefit Amounts – Premium benefits would increase from \$5 to \$13 per month in perpetuity if all RRAA funds were used.

### **Medical Plans**

- Add Benefits – Where applicable within our health plans, the ASRS could lower copayments and/or coinsurance percentages, remove the deductible from the Choice Plus PPO plan (out-of-state non-Medicare plan, currently at \$500 per person and \$1,000 for family), lower maximum out-of-pocket costs, expand prescription drug coverage, or improve vision and hearing benefits.
- Lower Premiums - \$6.6 M buys down the premium by \$53 per month for non-Medicare retirees for one year.
- Wellness Initiatives – The ASRS could consider several programs designed to improve the health status of our enrolled members such as: body mass index (BMI) testing; blood pressure and cholesterol screenings; health assessment tools; smoking cessation programs; obesity screening and counseling; diet and nutrition counseling; breast cancer, skin cancer, and diabetes screenings; and fall prevention programs.

### **Administration and Services**

- System Redesign – ASRS could buy needed technology (software and software upgrades) to improve overall internal administration of our retiree health plans.
- Staff

### **Self-Funding**

- Initially, what would dollars be needed for?
  - Stop loss insurance for the initial years (whether specific or aggregate)
  - Printing forms, guides, newsletters, promotional material, etc.
  - A deposit to establish the self-funded program’s bank account
  - System redesign
  - Staff
  - Programming
  - IBNR reserves
  - Consultants
  - Etc.





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*Paul Matson  
Director*

## MEMORANDUM

**TO:** The Arizona State Retirement System (ASRS) Operations Committee (OC)

**FROM:** Mr. Anthony Guarino, Deputy Director and Chief Operations Officer  
Mr. Dave King, Assistant Director Member Services  
Mr. David Cannella, Manager of Communications and Media Relations  
Ms. Sara Orozco, Manager Strategic Planning and Analysis  
Ms. Pamela Vozza, Digital Communications Officer  
Mr. Trent Kendall, Project Manager Technology Services

**DATE:** September 30, 2014

**RE:** **Agenda Item 4:** Presentation, Discussion and Appropriate Action Regarding a Web Steering Committee Status Update

### **Purpose**

To provide the OAC with an overview of progress, to date, with the migration of members from manual transactions, physical contacts and mailings to online self-service.

### **Recommendation**

Informational only, no action required.

### **Background**

The attached presentation outlines the progress made in migrating members from manual transactions, physical contacts and mailings to online self-service from January 2011 to October 2014. At the end of the presentation, we outline needed areas for improvement and pockets of members not yet converted to self-service.





# Arizona State Retirement System



**Web Self-Service**

*A Paradigm Shift*





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- Web Steering Committee**
- Service Paradigm Shift**
- Self-Service Improvements**
- Next Steps**



# At the Onset – January 2011

## ❑ **Staff Constraints**

- Business was growing while ASRS FTE allocation remained flat
- Member Services made up 37% (86) of entire workforce (234)

## ❑ **Call Center Performance Declining**

- Call volume increased 25%+ from 2007-2010 (just above peer average)
- Team had missed service goals in 18 of last 19 months
- Morale was low, turnover was high (40-58% annualized)

## ❑ **Walk-ins Very High**

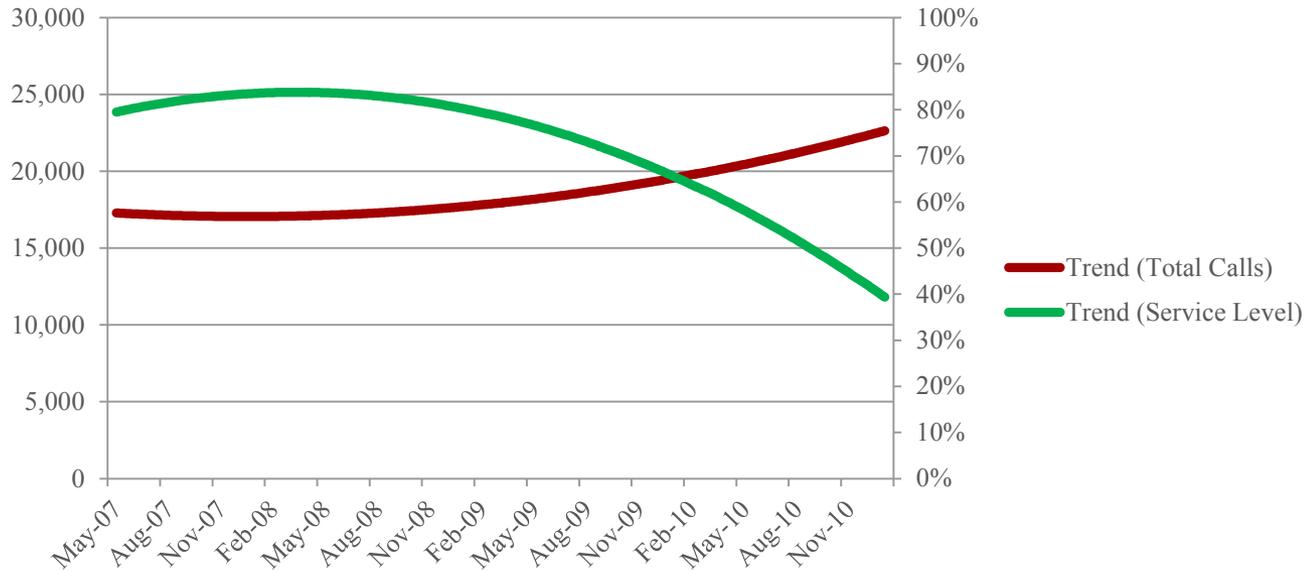
- 30,000 one-on-ones per year (triple the peer average)



# Call Center Problems

## ❑ Call volume vs. service level

- Staffing could not keep up with calls





# At the Onset – January 2011

- ❑ **Most transactions were initiated via paper**
  - 75% of transactions that could be initiated online were still being submitted via paper application
  - Each paper transaction requires extra work
  
- ❑ **Not enough resources to handle volume spikes**
  - Required temporary staff and re-allocation from other units
  - Temporary staff hired to handle returned mail (10,000-20,000 statements returned undeliverable each year)



# Customer Service Paradigm

## ❑ Old paradigm

- ASRS had always invited “hands on” and “live contacts” as the best possible customer service
- CEM Benchmarking gave highest marks to hands-on service and high number of mailings to member homes
- High service level expectations
  - Member with advisor within 15 minutes of arrival
  - Answer 80% of calls in 20 seconds or less
  - Fewer than 5% abandonment

## ❑ New paradigm

- Get members to self-serve BEFORE they decide to call/visit, just like other financial services
  - Tax Filings, Investments, Banking, Purchasing
- Same high service level expectations



# Web Steering Committee

- ❑ **Deputy Director created a permanent Web Steering Committee**
  - Member Services Assistant Director (Committee Chair)
  - Communications Team
  - Strategic Planning Manager
  - Technology Services Project Manager
  
- ❑ **Expected outcome**
  - Maximize the use of online tools to help the ASRS meet strategic objectives in the face of increasing demand without increasing costs
  - Hoped to lower demand, but did not expect it – just wanted to level off the demand until economy improved



# Major Business Decisions

## ❑ **January 2011**

- Began collecting email address on each call/visit
- Big shift in live/print messaging to members to self-serve
- Streamlined usability of website, registration and login

## ❑ **September 2011**

- Began requiring all refunds to be initiated online
- Mailed final member statements to members

## ❑ **May 2012**

- Began quarterly mass email campaigns, with links to website

## ❑ **September 2012**

- Mailed postcard to all members (no member statement)

## ❑ **September 2013**

- Began daily birthday emails (no mass mailing to homes)



# Major Technology Releases

## ☐ 2007

- Secure member website, demographic updates

## ☐ 2010

- Online Enrollment (new members)

## ☐ 2011

- Secure Email, Online Refund Application

## ☐ 2012

- Online Meetings Registration, Online Education Webinar, Online Statements, Facebook

## ☐ 2013

- Self-service unlock/password reset, Online Status Updates, Remote Online Counseling, Online Retirement Application

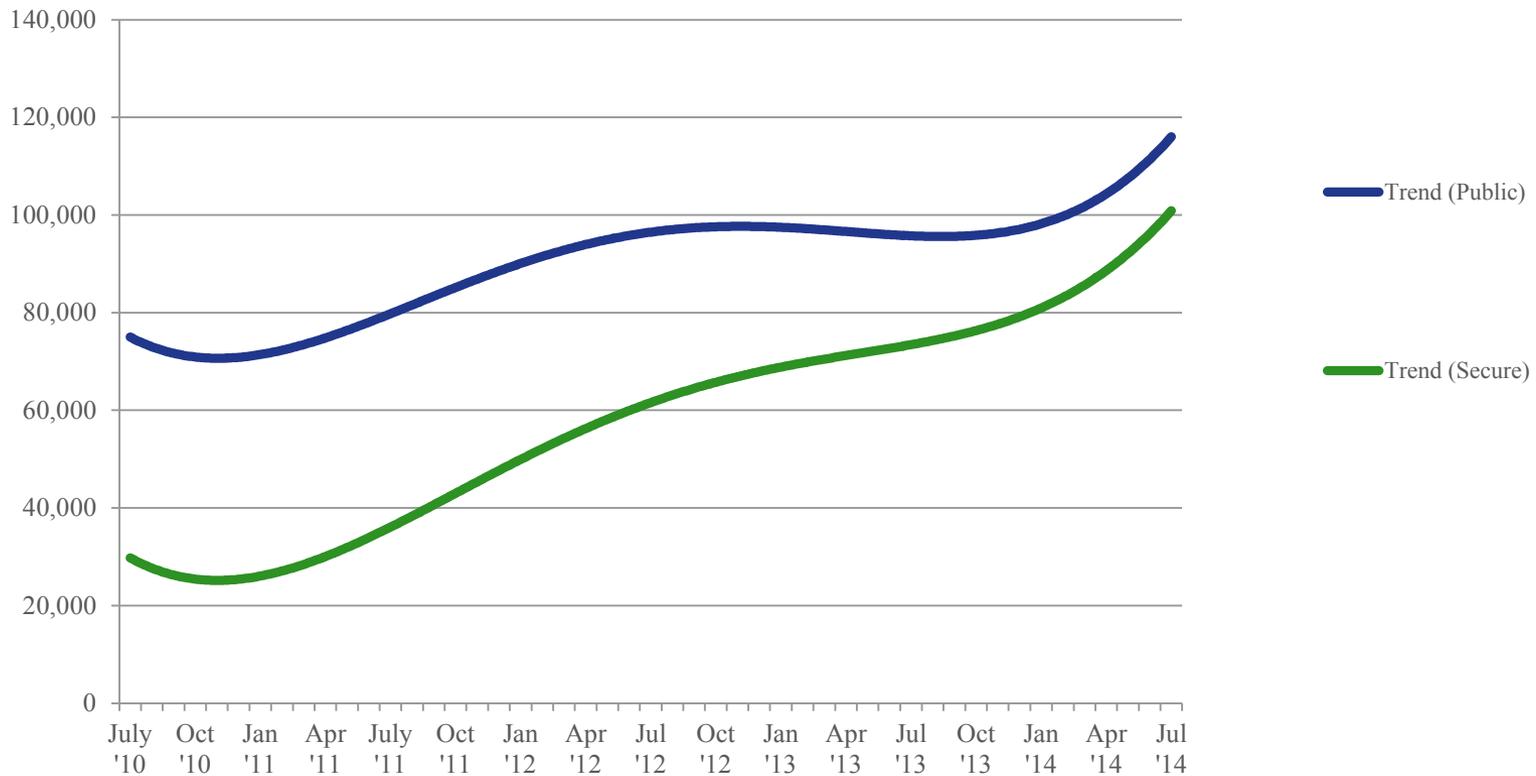
## ☐ 2014

- Online Registration at Enrollment, New Public Website, Twitter, Interactive Education Tools, Online Return-to-Work



# Website Activity

## Website Visits to Public and Secure Home Pages





# Emails and Registrations

## □ Get the email addresses

- Started with a good base of email addresses (just under 50%)
- Now, 60% of members have good email on file (80% of active)
- Emails remain when members move, unlike physical address
- Members with email are contacted more often than ever
  - 3-4 e-newsletters per year (40% open rate)
  - Targeted 'Happy Birthday' email (50% open rate)
  - Financial Horizons or Retiree Newsletter mailings

## □ Emails convert to registrations

- 70% of members with email address on file have registered for secure account access



# Emails and Registrations

## ❑ Online applications convert to registrations

- Members must register to:
  - View balances
  - Update contact information
  - Send a secure email to ASRS contact center
  - Register for a retirement planning meeting
  - Run a benefit estimate
    - *Except in the final year before retirement*
  - File for retirement
  - File for refund
  - Report a 'Return to Work' engagement



# Log-ins

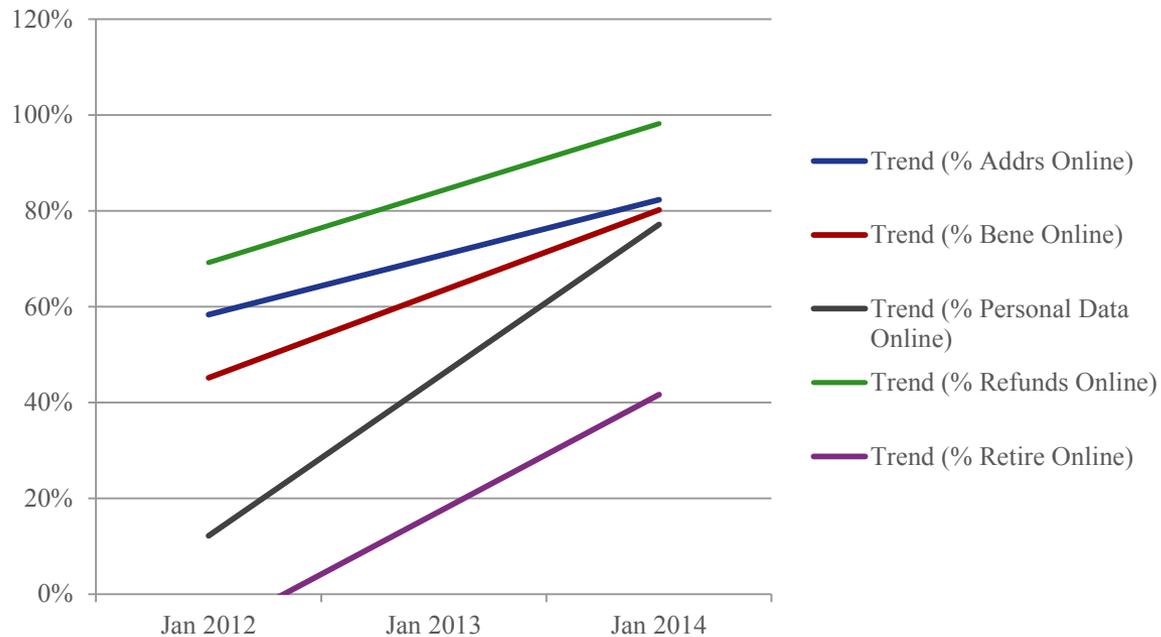
## ❑ Registrations convert to logins

- They come back later
  - 75% of members log in several times during the year they retire
  - 75% of all registered members have logged in at least once in past 2 years (majority those are inactive)
  - 55% of all registered members have logged in at least once in past 1 year
- 22,000 personalized benefit estimates performed per month
  - *700-1,000 custom estimates created per month*
- 12,000 member statements are downloaded per month
  - *Fewer than 10 printed statements requested per month*
- 7,000 payment advices are downloaded per month
  - *About half of all retirees still receive advice in mail when something changes. This service will stop in January 2015*



# Self-Service Activity

## ☐ Logins convert to self-service



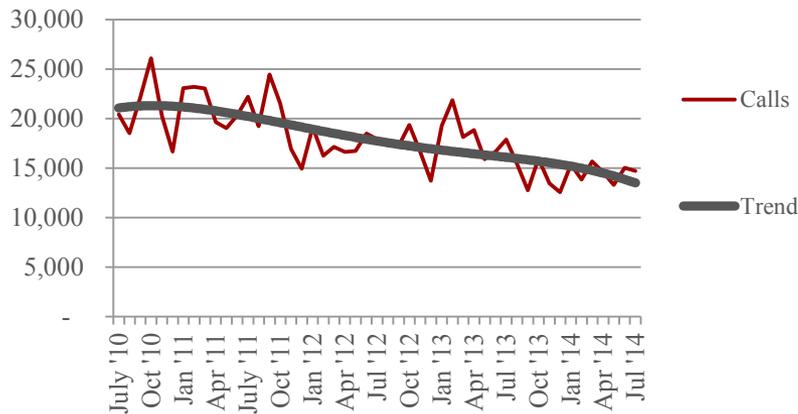


# Impact on Contact Centers

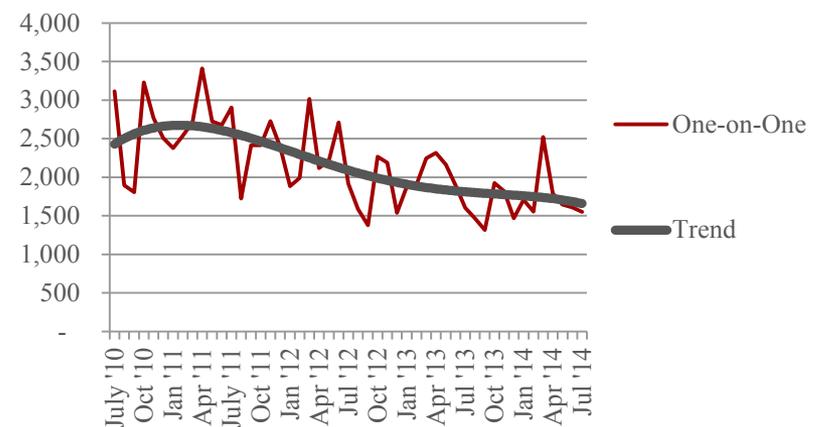
## ☐ Self-service lowers demand on contact centers

- In 2014, Calls and One-on-Ones have dropped a combined 31% since 2010

### Calls



### One-on-Ones





# Impact on Contact Centers

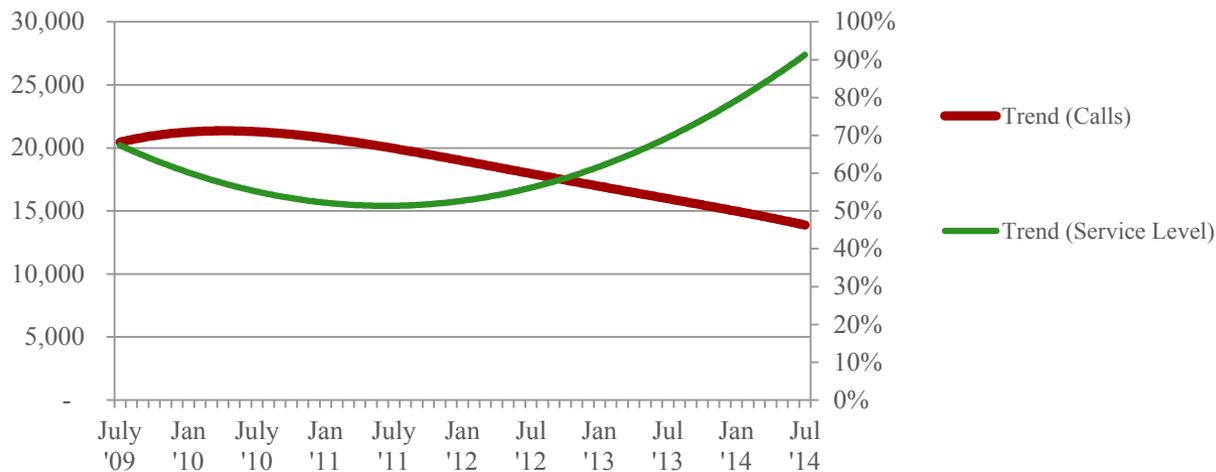
- ❑ **Economic factors impact demand on contact centers as well**
  
- ❑ **Refunds**
  - Unemployment rate has declined 20% (from 9.3% to 7.3% since 2010)
  - Peer retirement systems calls down 10% (*per 1,000 Active Members and Annuitants*) since 2010
    - ASRS calls down 31% since 2010
  - Refund volume is the most frequent disbursement type
    - Refund requests down 30% since 2010
    - Refund-specific calls per refund decreased 20% since 2010
    - With Online Refund Application/workflow/imaging/automated calculation, staff effort per refund has been reduced significantly over past 10 years



# Impact on Contact Centers

## □ Lower demand equates to better service levels, improved morale and lower costs

- Increased employee satisfaction (2014 survey vs. 2012 and 2008)
- Staff turnover at record low
- Met service levels 12 consecutive months, and going

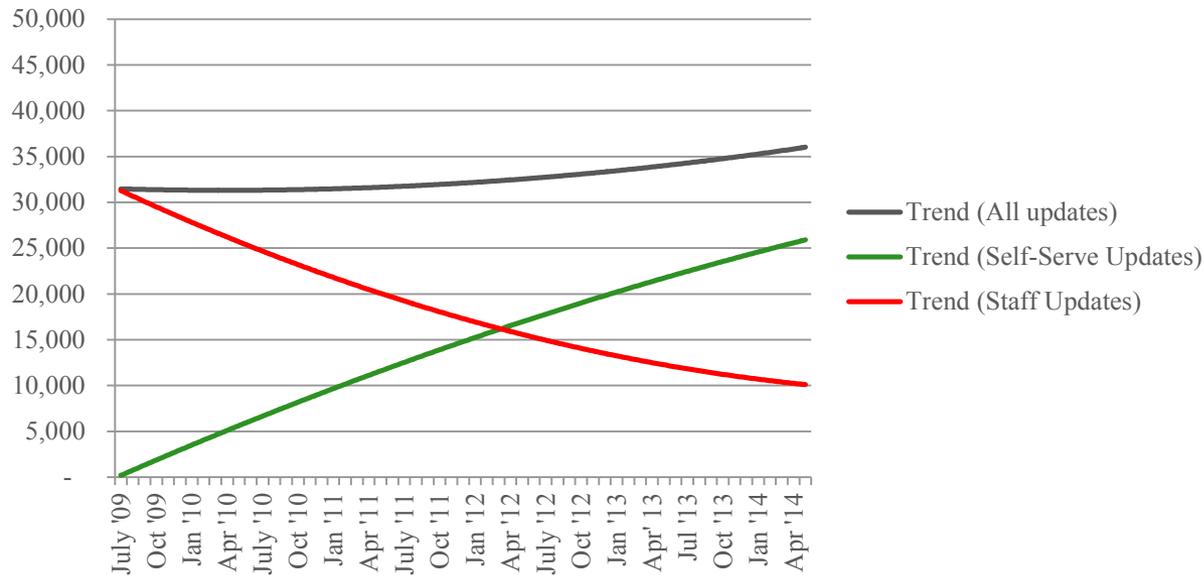




# Positive Member Impact

- Members are keeping their accounts more current

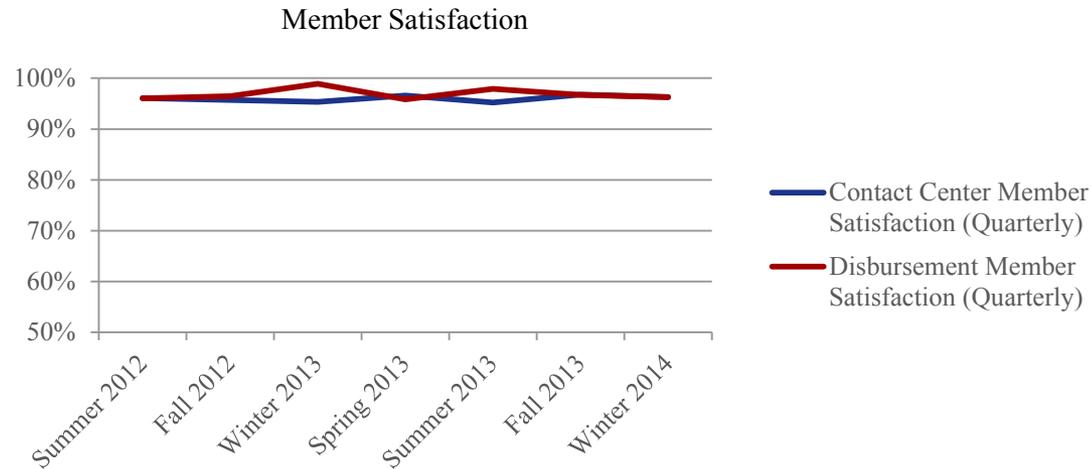
Self Service Update Trend





# Positive Member Impact

## ☐ Members remain quite satisfied, at over 95%



## ☐ Are more educated on member benefits

- Fewer contacts, less rework, fewer appeals

## ☐ In more ways than ever

- Social, video, CBTs, interactive map, web, handouts, mail



# Bottom Line Savings

## ❑ **ASRS saves in mailing costs**

- Saves \$200,000+ per year by cancelling member statement mailings

## ❑ **ASRS lowered operating costs per transaction**

- Reduced call-taking and one-on-one staff by 20%
  - Created four (3) new analyst/manager positions in MSD
  - Re-classified four (5) positions to other divisions
    - Rules writing, admin services, strategic planning, communications, TSD network services
- Reduced effort per disbursement application
  - Online filings require no handling, imaging, data capture
- Nearly eliminated temporary staff and contact center support
  - Fewer spikes in demand = less scrambling



# What's Next?

- ❑ **Not reaching a large group of disengaged members**
  - Mostly inactive
  - No email address for 180,000 members (40% of population)
  - Another 95,000 members (20%) have email on file but have not registered for self-service



# What's Next?

## ❑ **New enrollments lost opportunity**

- From mid 2012 to end of 2013, new enrollees only
  - Since 2010, Members have enrolled online (personal contact information, including email)
  - In mid 2012, ASRS stopped taking paper Beneficiary Forms
    - But only 15% of enrollees registered and declared a beneficiary within 1 year of membership
- Steps taken
  - 2012-2013: Mailings and emailings encourage beneficiary designation
  - January 2014, implemented combined enrollment/registration/beneficiary designation in one step
    - Creates a temporary account for pre-members
    - Now 75% register for online access
    - Now 70% of members name a beneficiary, higher than ever
  - Aug 2014: Began monthly 'Welcome' emails to new members



# What's Next?

## ❑ **Some members not computer savvy**

- Website help calls make up 8% of all call volume
- Attendance in retirement meetings has declined since Online Registration introduced
- Steps taken:
  - Made unlocking account and website navigation easier
  - Trained staff to handle website helpdesk calls
  - Created more than 20 videos and tutorials
  - Redesigned website to be more visual, clickable
  - Redesigned the Member Education portion of website to lead near-retirement members to group meetings and webinars



# What's Next?

## ❑ **Most Retirees not actively using website**

- 50% have registered
- But less than 10% log in each month
  
- Next steps:
  - Enhance retiree website (November 2014)
    - Add details on benefit, health insurance, survivor benefit
    - Add ability to print Benefit Verification
    - Make navigation more intuitive
  - Increase registrations pre-retirement
    - 75% of new retirees are registered pre-retirement



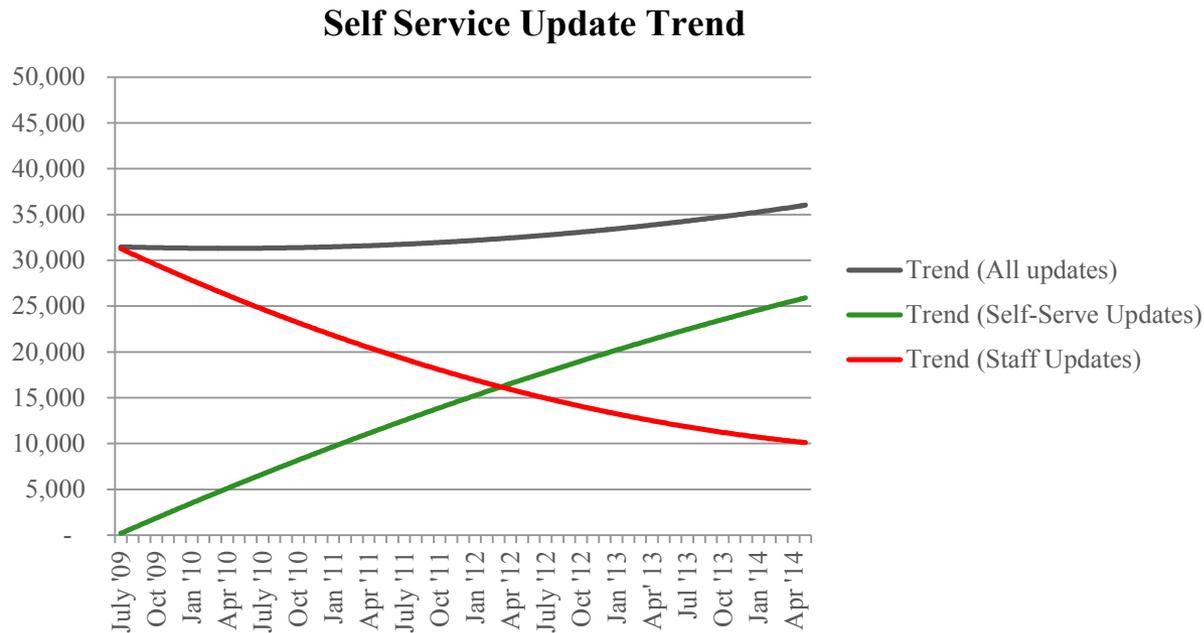
# What's Next?

- ❑ **Most Inactive members have not been reached since May 2013**
  - Profile:
    - Inactive, not yet retired
    - 20-65 years old
    - More than \$100 on account
  - Last Mailing
    - Financial Horizons, May 2013
  - Next steps:
    - In process
      - One mass mailing each October (Financial Horizons)
      - Retirement eligibility letter at age 65 and age 70.5
    - Future:
      - Consider targeted mailing?



# Still a Net Gain

**Members are keeping their accounts more current**





**?** **?** **?**  
**?** **Questions?** **?**  
**?** **?**  
**?**



2014/15	HOURS	ACTUAL		ESTIMATED	
		BUDGETED	HOURS WORK YTD	PERCENT OF HOURS UTILIZED	HOURS REMAINING
<b>AUDITS</b>					
Service purchase invoices	150	45	30%	105	150
Investment trade tickets	550	65	12%	485	550
Fraud hotline/internal investigations	200	55	28%	145	200
Employer audits	4,250	980	23%	3,270	4,250
Continuous audit monitoring	250	40	16%	210	250
Pension/survivor final audit	200	5	3%	195	200
Refunds processing	150	50	33%	100	150
audit follow-up	150	0	0%	150	150
Census data Gasb 68	300	20	7%	280	300
Information security	300	0	0%	300	300
Quadros	300	0	0%	300	300
Spreadsheet review (from 2014)	228	187	82%	0	187
Software licensing	200	0	0%	200	200
<b>TOTALS</b>	<b>7,228</b>	<b>1,447</b>		<b>5,740</b>	<b>7,187</b>
<b>OTHER THAN AUDITS</b>					
Member statement testing	100	0	0%	100	100
Director requests	150	150	100%	0	150
Requested audits/other*	150	0	0%	150	150
Audit Plan 2016/17	100	0	0%	100	100
<b>TOTALS</b>	<b>500</b>	<b>150</b>		<b>350</b>	<b>500</b>
<b>GRAND TOTAL</b>	<b>7,728</b>	<b>1,597</b>		<b>6,090</b>	<b>7,687</b>

**EXPLANATION OF ACTUAL  
HOURS THAT EXCEED  
BUDGET BY MORE THAN 10%**

**A REPORT TO THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**COCONINO COMMUNITY COLLEGE**

**JULY, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
COCONINO COMMUNITY COLLEGE  
JULY, 2014

The audit of Coconino Community College was completed July 7, 2014, for the period July 1, 2010 through June 30, 2013.

The audit objectives are to determine whether Coconino Community College is in compliance with Arizona State Retirement System (ASRS) statutes governing the following:

- Eligible compensation and required contributions reported to the ASRS.
- Accurate and timely enrollment of all eligible employees.
- Reporting and remitting of the employees' and employer's share of contributions.
- Medical and dental insurance premium benefits payable to retired employees.
- Statutes governing retirees' return to work.
- Statutes governing termination incentive programs.

**SUMMARY OF FINDINGS:**

Based on the results of the work performed to meet the above audit objectives, the following statement summarizes the findings presented to Coconino Community College:

**Coconino Community College:**

- **Did not timely inform the ASRS that two retired members were no longer covered through Coconino Community College's medical insurance resulting in ASRS premium benefit overpayments.**
- **Did not pay the alternative contribution rate (ACR) for one of its returned to work retirees.**

**BACKGROUND**

Coconino Community College joined the ASRS March 20, 1992, by executing an Application and Social Security 218 agreement. Coconino Community College currently has approximately 185 employees contributing to the ASRS.

**DESCRIPTION OF AUDIT WORK PERFORMED**

The audit work performed during this engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2010 through June 30, 2013. The auditor reserves the right to expand the scope of the audit when circumstances dictate discrepancies with ASRS statutes or federal laws. The auditor reviewed pertinent documentation and interviewed personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

- Review of the Social Security 218 agreement to determine eligible employees.

ARIZONA STATE RETIREMENT SYSTEM  
COCONINO COMMUNITY COLLEGE  
JULY, 2014

- Review of the employer payroll records and related ASRS reports.
- Review of employees' time sheets and payroll records to determine eligibility.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.
- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.
- Review the salaries of retiring employees to determine whether there is salary spiking during the years prior to the employee retirement.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

**AUDITOR COMMENTS:**

Coconino Community College personnel were cooperative, informative and helpful in providing time reports, payroll records, and other information necessary to effectively complete the ASRS audit. Audit findings and recommendations were discussed and issues resolved in a timely manner.



**A REPORT TO THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**COCONINO COMMUNITY COLLEGE**

**FINDINGS AND RECOMMENDATIONS**

**JULY, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
COCONINO COMMUNITY COLLEGE  
RECOMMENDATIONS

**FINDING 1:**

**Coconino Community College did not timely inform the ASRS that two retired members were no longer covered through Coconino Community College's medical insurance resulting in ASRS premium benefit overpayments.**

A.R.S. § 38-783 provides for the ASRS to pay part of the coverage premium of any health and accident insurance for each retired member if the member elects to participate in the coverage provided by ASRS or elects to participate in a health and accident insurance program provided by an employer.

The May, 2013, ASRS health insurance premium benefit report was selected for review. As of May, 2013, there were four retirees receiving an ASRS premium benefit. Two of these retirees ceased coverage from Coconino Community College's medical insurance. One retiree's coverage ceased January, 2011, and the other retiree's coverage ceased August, 2012. As a result of this audit, Coconino Community College recently submitted information to the ASRS necessary to process the overpayment.

The premium benefit overpayment due the ASRS, as determined by this audit is as follows:

**Total premium benefit overpayment due: \$8,141.00**

**Recommendations:**

1. Coconino Community College should develop a monthly process to reconcile all ASRS premium benefit payments to ensure coverage has not ceased. Coconino Community College should timely notify the ASRS whenever a retiree's coverage has ceased.
2. Coconino Community College should self-audit the eligibility of all retirees' receiving the ASRS premium benefit payment for fiscal year beginning July 1, 2013. The self-audit results should be provided to the ASRS.

**Employer Response:**

1. We have reviewed this finding and recommendation. We will follow this recommendation. The process we have established is as follows:
  - a. Human Resources receives the monthly check from ASRS for premium assistance for retirees
  - b. HR Analyst will compare the remittance to the monthly AZ BC/BS reconciliation spreadsheet.
  - c. HR Coordinator will compare the remittance with the 3<sup>rd</sup> party vendor for COBRA.
  - d. If there are any discrepancies, the HR Coordinator will resolve with the ASRS immediately.
2. We have reviewed this second recommendation. We will provide a self-audit for FY2014 by July 31, 2014.

ARIZONA STATE RETIREMENT SYSTEM  
COCONINO COMMUNITY COLLEGE  
RECOMMENDATIONS

**FINDING 2:**

**Coconino Community College did not pay the alternative contribution rate (ACR) for one of its returned to work retirees.**

A.R.S. § 38-766.02 provides the guidelines for payment of the ACR for retirees who work after retirement. According to the statute, “an employer shall pay contributions at an alternate contribution rate on behalf of a retired member who returns to work in any capacity in a position ordinarily filled by an employee”. The ACR is to be “applied to the compensation, gross salary or contract fee of a retired member who meets the requirements of this section.”

Coconino Community College had one return to work retiree where no ACR was remitted.

The estimated ACR due, excluding interest, as determined by this audit is as follows:

<b>Total estimated ACR due:</b>	<b>\$1,017.00</b>
---------------------------------	-------------------

**Recommendation:**

Coconino Community College should contact its contributions accounting representative at ASRS to make arrangements for payment of the ACR.

**Employer Response:**

In reviewing Constance Pribil's file, CCC agrees that for July 1, 2012 – July 1, 2013 we did not contribute to ACR. As a result, we will contact our Contributions Accounting Representative to process payment.



**A REPORT TO THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM  
INTERNAL AUDIT**

**KEY FUNCTIONAL SPREADSHEET REVIEW**

**AUGUST, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
Key Functional Spreadsheet Review  
AUGUST, 2014

We completed our audit of key functional Excel spreadsheets used for member benefit calculations on July 31, 2014.

Our audit objectives were:

- 1) The existence of controls over ownership, proper use, and updating of the spreadsheets
- 2) The reliability and integrity of the spreadsheets.
- 3) Compliance with policies, plans, procedures, and state statutes.

The scope of our audit encompassed the examination and evaluation of the internal control structure and the quality of performance in carrying out assigned responsibilities for the audited area. Our review was based on a prioritized sampling of approximately 45 key spreadsheets that calculate member benefits, and the issues found and reported herein may be representative of similar issues with the untested spreadsheets or portions thereof. The tests were designed to obtain sufficient, competent, and relevant evidence in order to provide a reasonable basis for our conclusions.

The Arizona State Retirement System administration is responsible for establishing and maintaining the internal control structure. Because of the inherent limitations in any internal control structure, errors or irregularities may occur and not be detected.

Based on the results of work performed to meet the audit objectives, the following statements summarize the results of our testing and the internal recommendations presented to the Arizona State Retirement System administration with the Internal Recommendations Supplement.

We found no spreadsheet formula errors or deviations from state statutes or ASRS policies in our sample testing that would indicate the key functional spreadsheets used by the agency would produce significantly incorrect results when utilized by experienced users.

A variety of organizational and miscellaneous issues that did not impact calculation results were identified during the review. These issues were determined to potentially impact the key spreadsheets in minor ways. Correction of them would improve spreadsheet updates and performance.

The spreadsheets that access the PERIS database use connection strings that display user IDs and passwords in clear text that any user can view in the properties definition. Also, the passwords are seldom changed.

## **BACKGROUND**

The ASRS maintains a number of important Excel spreadsheets related to member benefit calculations that serve as back-up to automated systems or helpful stand-alone calculation platforms by themselves. Some of these spreadsheets were created as long ago as a decade and subsequently updated or modified to reflect new factors, formulas, and requirements. The ASRS staff with the expertise and knowledge to work on these spreadsheets and develop new ones as needed has changed over the years, with the responsibility now residing in the 3<sup>rd</sup> - 4<sup>th</sup> generation of subject matter experts (SMEs). Many of these spreadsheets are quite complex, and, when originally created, were not adequately documented as to how exactly they operated.

This left the SMEs who work with them the tasks of analyzing and dissecting them in order to understand what they did and how they did it in order to confidently make updates or modification. This effort is still ongoing, with recommendations made in the supplement to this report that should assist in accomplishing that task.

### **DESCRIPTION OF AUDIT WORK PERFORMED**

The audit work performed during this engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Internal Audit (IA) reviewed the internal control structure, interviewed personnel, obtained and reviewed documentation, and performed analytic reviews when appropriate. IA performed tests of the existing systems to provide sufficient evidence that controls were in place and being monitored, or were needed.

Some of the tests performed were:

- Review of SOPs, practices, and related statutes.
- Review of controls over spreadsheet accuracy, integrity, and security.
- Sample testing of prioritized spreadsheets from a list of identified key spreadsheets.
- Interviews with SME staff responsible for maintaining key spreadsheets.
- This spreadsheet review was based on a prioritized sampling of approximately 45 key spreadsheets, and the issues found and reported herein may be representative of similar issues with the untested spreadsheets or portions thereof.



**A REPORT TO THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM  
INTERNAL AUDIT**

**KEY FUNCTIONAL SPREADSHEET REVIEW**

**INTERNAL RECOMMENDATION SUPPLEMENT**

**AUGUST, 2014**

**INTERNAL FINDINGS AND RECOMMENDATIONS:**

- 1) We found no spreadsheet formula errors in our sample testing that would indicate the key functional spreadsheets used by the Agency would produce significantly incorrect results when utilized by experienced users.**

Our testing and interviews revealed the following:

- a) Currently, most functional spreadsheets are used for testing and back-up of automated systems, and, therefore, have been vetted to ensure they can independently arrive at the correct calculations for whatever area is covered.
- b) When spreadsheets are updated or otherwise repaired, they are tested by users to determine whether they are functioning appropriately post-change.
- c) Key functional spreadsheets are maintained in various directories on a network drive with read-only access with respect to saving current content. Users have to save the spreadsheet with a new name in order to retain it. This avoids inadvertent changes to spreadsheets being saved and repeatedly used later.
- d) Management is aware that it is possible for staff to use outdated spreadsheets. Spreadsheet users are discouraged from saving and using versions of the spreadsheet outside the network they reside on, since many are periodically updated with factors, rates, and other changes.
- e) Most calculations arrived at using the functional spreadsheets are reviewed by another staff member, so problems with a spreadsheet's performance due to inadvertent alteration or outdated usage would quickly be detected.
- f) The SME staff who have ownership over these spreadsheets have indicated that archive versions are maintained to ensure reversion copies are available in case original files become damaged, corrupted, or unusable.
- g) In cases where certain formulas are missing, in the wrong location, or reference arrays haven't been updated, it is believed that users are probably applying work-a-rounds by adjusting the spreadsheets with entries from alternate sources at their disposal, and when needed, in order to complete the processing properly.

Best practices dictate that any spreadsheets used by the agency to perform important member benefit calculations should be protected from deletion or alteration, updated as needed, and tested to confirm they are working as expected. These controls appear to be in place currently, though some minor exceptions were noted during the review and are covered in finding # 2.

The layered controls and safeguards that exist limit the potential for key spreadsheet formula changes or errors to go undetected, therefore resulting in a low risk of ongoing processing errors. Also, experienced staff appears to adequately work through or around minor spreadsheet issues they run across.

**RECOMMENDATION:**

Management should develop an issues reporting process for these spreadsheets whereby users can report problems they encounter during use to the SME owners responsible for maintaining them. Encourage known and suspected issues be reported so they may be corrected and the spreadsheet improved.

**ADMINISTRATIVE RESPONSE:**

Management agrees with this finding. FSD will formalize, via a tracking document, the current informal process of reporting spreadsheet issues via e-mail to the SME spreadsheet owners.

**INTERNAL FINDINGS AND RECOMMENDATIONS:**

**2) A variety of organizational and miscellaneous issues that did not impact calculation results were identified during the review. These issues were determined to potentially impact the key spreadsheets in minor ways. Correction of them would improve spreadsheet updates and performance.**

Issues noted were:

- a) No comprehensive listing existed of all key spreadsheets used by the Agency to help determine member benefits.
- b) Of 30 key spreadsheets reviewed, only three had any information concerning their purpose or instructions on how they are to be used. Generally, comprehensive and detailed instructions were absent in the spreadsheets themselves. We were able to locate SOPs on IQ that included use of these spreadsheets in about 50% of the cases. Of these SOPs, many had hyperlinks to the spreadsheets, which is a good feature, though no spreadsheets had hyperlinks to an SOP.
- c) Though spreadsheets were updated with new APV factor tables, the control matrix for the updates was not updated until after the auditor requested it. The spreadsheets themselves have no indication of versioning or a log of updates and when an update was made.
- d) Protection features within the spreadsheets were inconsistent in that some have protection and others did not. Some protection features apply the use of passwords to remove them, while others did not. There was at least one instance of the protection password not being consistent within the same workbook. The application of protection features can be problematic in some spreadsheets due to complexity, where data extractions are pasted, and the need to allow input to various cells during processing.
- e) The risk assessment document mentions the risk of formulas not being correct to adequately determine the various benefit amounts. The risk of the spreadsheet not complying with statute is just as important and should be considered as well.
- f) Lack of descriptions for database connections.
- g) Lack of descriptions for macros used.
- h) Missing, incomplete, or inaccurate column and/or row labeling.
- i) Missing formulas.
- j) Incorrect formulas.
- k) Formulas in the wrong locations.
- l) Incomplete updates to referenced data.
- m) Broken links to other spreadsheets that can't be located.
- n) Macro buttons that route users to old, non-existent spreadsheets.

- o) Spelling and grammatical errors in labels, tab names, and comments.

Added notes:

- Many of these functional spreadsheets are almost a decade old and were created by highly sophisticated spreadsheet users who are no longer employees of the agency. Generally, no instructions were included in the spreadsheets themselves. Also, connections and macros have a mixed variety of names and contain no descriptions of their function and purpose in most cases. This makes it very difficult for SME staff who have ownership of them to follow along afterwards and understand the various macros, connections, and links in order to make needed updates and changes.

Best practices dictate that all key functional spreadsheets used by the agency to perform important member benefit calculations should be maintained in an inventory, so management is readily aware of what they are, where they are, and what job function they provide for the agency. Included in the inventory should be the exact filename and path of the regularly used versions. Additionally, other information should be known as well. Suggested data about each key spreadsheet might be original creator/owner, current owner, when created and updated and by whom, purpose or function performed and for what division(s) of the agency, and what specific factor or rate updates each spreadsheet requires and on what periodic basis. Back-up versions of the spreadsheets should be controlled with limited access rights.

### **RECOMMENDATIONS:**

Management should:

- 1) Develop a key functional spreadsheet inventory with all necessary data and maintain same in an updated fashion and in an adequately secure location.
- 2) Add to the Risk Assessment that spreadsheets may not fully conform to statute.
- 3) Emphasize to users, as part of the spreadsheet instructions:
  - a. That key functional spreadsheets should always be used in the location where they are stored, rather than being copied for use on a user's U drive or elsewhere.
  - b. Users should be encouraged to report any suspected flaws or broken links in a key spreadsheet, so it may be corrected.
- 4) As time permits, conduct a detailed review of key spreadsheets by SMEs with the goal of detecting, prioritizing and correcting the sorts of issues identified during this review.
- 5) Research automation of certain key spreadsheets to determine if it may be cost beneficial to the agency to do so.
- 6) Before releasing spreadsheet versions, run a spell check on each tab.

### **ADMINISTRATIVE RESPONSE:**

Management agrees with this finding. FSD will:

- 1) Bring current the existing spreadsheet inventory document.
- 2) Add a risk to the Risk Assessment that spreadsheets may not fully conform to statute.
- 3) Continue to emphasize to users that key functional spreadsheets should not be copied to the U drive.

- 4) Continue to encourage users to report suspected spreadsheet flaws to the SME spreadsheet owners.
- 5) Conduct a detailed review of key spread sheets with the goal of detecting, and correcting issues identified.
- 6) Determine which spreadsheets may provide a benefit to the Agency if they are automated, and pursue implementation when appropriate.

**INTERNAL FINDINGS AND RECOMMENDATIONS:**

- 3) The spreadsheets that access the PERIS database use connection strings that display user IDs and passwords in clear text that any user can view in the properties definition. Also, the passwords are seldom changed.**

Our testing and interviews revealed the following:

- a) It was noted that all of the spreadsheets that have connections for access to the PERIS database contain embedded user IDs and passwords in clear text. This is needed to allow the data extractions to execute without the user having to input their own user ID and password for each connection that exists. Unfortunately, it creates a data access security risk in that the clear text access credentials can be used to extract large amounts of Personal Identifiable Information (PII) from the PERIS database anonymously, given the proper access and knowledge. If a malicious user obtained the network access of an active staff member, use of the embedded credentials could allow data extractions that would be highly difficult to assign accountability for. These user IDs and passwords are not changed periodically which means that, in many cases, they have been in effect for about a decade, with the potential for past employees to be aware of them.
- b) During the review, it was noted that there are a number of outdated spreadsheets that exist on the P drive in various directories. Many of these also contain the connection strings mentioned above, or other sensitive data. The absence of a periodic “house-keeping” on such files creates a kind of “data landfill” residing on the agency network that has no useful function but that could be exploited by malicious insiders.

Best practices dictate that database access credentials be kept confidential and changed periodically in order to protect against inappropriate access. Also, periodic cleansing of outdated files ensures stray sensitive data and files are not available for possible exploitation.

**RECOMMENDATION(S):**

Management should:

- 1) Research ways to better secure connection strings so that access credentials cannot be viewed by users in the connection properties definition. Once this is done, change the existing long-standing passwords for all spreadsheets to reasonably complex ones and shut down access for all the old passwords.
- 2) Preliminary research by IAD indicates potential security steps may be to secure viewing of the connection strings through passwords or encryption, or allow such access via an Active Directory group that would authorize access based on the network login credentials of the user.

ARIZONA STATE RETIREMENT SYSTEM  
KEY FUNCTIONAL SPREADSHEET REVIEW  
AUGUST, 2014

- 3) Cull relevant network drives of old and outdated spreadsheets that have no further use. Those that need to be retained should be archived in password restricted directories.

**ADMINISTRATIVE RESPONSE:**

Management agrees with this finding. FSD will work with TSD to improve spreadsheet security and to securely archive spreadsheets that are no longer used.

**A REPORT TO THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**NEW WEST CHARTER SCHOOL**

**JUNE, 2014**

The audit of New West Charter School was completed in October 2014 for the period July 1, 2010 through June 30, 2013.

The audit objectives are to determine whether the New West Charter School is in compliance with Arizona State Retirement System (ASRS) statutes governing the following:

- Eligible compensation and required contributions reported to the ASRS.
- Accurate and timely enrollment of all eligible employees.
- Reporting and remitting of the employees' and employer's share of contributions.
- Medical and dental insurance premium benefits payable to retired employees.
- Retirees' return to work.
- Termination incentive programs.

### **SUMMARY OF FINDINGS:**

Based on the results of the work performed to meet the above audit objectives, the following statements summarize the findings presented to New West Charter School:

- 1. New West Charter School submitted several employee records with incorrect Social Security numbers.**
- 2. The New West Charter School did not treat their retirement contributions as pre-tax contributions since 2005.**

### **BACKGROUND**

New West Charter School joined the ASRS on September 1, 1998, by executing an Application and Social Security 218 Agreement. New West Charter School currently has five employees contributing to the ASRS.

### **DESCRIPTION OF AUDIT WORK PERFORMED**

The audit work performed during this engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2010 through June 30, 2013. The auditor reserved the right to expand or contract the scope of the audit when circumstances dictate or when discrepancies were noted with statute or federal laws. The auditor reviewed pertinent documentation and interviewed New West Charter School personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

- Review of the Social Security 218 Agreement to determine eligible employees.
- Review of the employer payroll records and related ASRS reports.
- Review of employees' payroll records to determine eligibility.

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NEW WEST CHARTER SCHOOL  
JUNE, 2014

- Review of employer tax records for comparison to ASRS records.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.
- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.
- Review the salaries of retiring employees to determine whether there is salary spiking during the years prior to the employee retirement.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

**AUDITOR COMMENTS:**

New West Charter School personnel were cooperative, informative and helpful in providing payroll reports, payroll records, tax records and other information necessary to effectively complete the ASRS audit for all available fiscal years. Audit findings and recommendations were discussed and issues resolved in a timely manner.



**A REPORT TO THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**NEW WEST CHARTER SCHOOL**

**FINDINGS AND RECOMMENDATIONS**

**JULY 3, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
NEW WEST CHARTER SCHOOL  
RECOMMENDATIONS

**FINDING 1:**

**New West Charter School submitted several employee records with incorrect social security numbers.**

New West Charter School signed an agreement with ASRS on August 7, 1998, which was approved by the ASRS board on September 18, 1998. The agreement includes a requirement that the school submit such wage and other reports to ASRS as may be required and in the form prescribed by the ASRS. The ASRS requires correct social security numbers (SSNs) in order to administer the members' accounts.

In total, three employees were reported to the ASRS with multiple SSNs in fiscal years 2004, 2005 and 2006. One of the employees had two incorrect SSNs, and the other two employees each had one correct and one incorrect SSN reported. The amounts reported under the correct SSNs were properly credited to the members' accounts. The amounts reported under the incorrect SSNs were not. Reporting under an incorrect SSN resulted in the creation of a separate account for each unintentional but fictitious SSN. If not resolved, the erroneous amounts could be left on account long after the members retired or refunded their accounts.

The ASRS has merged the incorrect accounts with the correct accounts for these identified members.

The amounts reported under erroneous SSNs were \$17,984 in gross wages. The employee contributions were \$1,003 on this income and the school paid the same amount in the employer match.

**Recommendations:**

The School should ensure that all contributions sent to ASRS include correct SSNs for each member.

**Employer Response:**

New West School will insure that all contributions sent to ASRS include correct SSNs for each member.

**FINDING 2:**

**The New West Charter School did not treat their retirement contributions as pre-tax contributions since 2005.**

A.R.S. § 38-736(B) states that "contributions shall be treated as employer contributions for the purpose of determining tax treatment under the internal revenue code" and "the member contributions paid will not be included in gross income for income tax purposes until the paid contributions are distributed by refund or retirement benefit payments."

The School deducted ASRS contributions from their employees' income until 2005, but has not done so since. In 2005, the employer reorganized from a for-profit enterprise to a non-profit enterprise. The School filed two sets of W-2s that year. The for-profit enterprise properly treated the contributions as pre-tax, but the non-profit did not and has continued to not deduct them to

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NEW WEST CHARTER SCHOOL  
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date. This has resulted in the employees being responsible for any income tax associated with the contributions that were not deducted since the change to non-profit status in 2005.

The total wages reported to the ASRS since the School stopped treating ASRS contributions as pre-tax is \$2,434,347. The contributions remitted for this compensation, but not deducted from the employees' W-2 Box 1, totaled \$194,780.

**Recommendations:**

The School should treat their employees' contributions as pre-tax. They should correct all employees' W-2s that they are able.

**Employer Response:**

New West School will treat employees' contributions as pre-tax. Corrections will be made on W-2s where applicable.



**A REPORT TO THE  
ARIZONA STATE RETIREMENT SYSTEM  
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**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**TOWN OF HAYDEN**

**JULY, 2014**

The audit of Town of Hayden was completed in July, 2014 for the period July 1, 2010 through June 30, 2013.

The audit objectives are to determine whether the Town of Hayden is in compliance with Arizona State Retirement System (ASRS) statutes governing the following:

- Eligible compensation and required contributions reported to the ASRS.
- Accurate and timely enrollment of all eligible employees.
- Reporting and remitting of the employees' and employer's share of contributions.
- Medical and dental insurance premium benefits payable to retired employees.
- Retirees returning to work.

### **SUMMARY OF FINDINGS:**

Based on the results of the work performed to meet the above audit objectives, the following statements summarize the findings presented to Town of Hayden:

- 1. The Town of Hayden did not:**
  - **Remit ASRS contributions for nine employees who were engaged to work at least twenty hours per week for at least twenty weeks in one or more fiscal years.**
  - **Remit ASRS contributions on all eligible compensation for five employees.**
  - **Return to its employees their excess contributions when the employee and employer shares were changed from a 53/47 split retroactively back to 50/50.**
- 2. The Town of Hayden did not remit contributions withheld from the pay of three members.**
- 3. The Town remitted contributions for three individuals who were contributing in one or more fiscal years even though they had not received any income for the pay periods.**
- 4. The Town had not remitted the alternate contribution rate (ACR) payments for its retirees who had returned to work.**
- 5. The Town of Hayden had not ensured that all retirees returning to work under A.R.S. § 38-766.01 complied with the requirement that they acknowledge the provisions of the statute in writing within thirty days of returning to work.**

### **BACKGROUND**

Town of Hayden joined the ASRS on July 1, 1964, by executing an Application and Social Security 218 Agreement. Town of Hayden currently has approximately 27 employees contributing to the ASRS.

**DESCRIPTION OF AUDIT WORK PERFORMED**

The audit work performed during this engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2010 through June 30, 2013. The auditor reserved the right to expand or contract the scope of the audit when circumstances dictate or when discrepancies were noted with statute or federal laws. The auditor reviewed pertinent documentation and interviewed Town of Hayden personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

- Review of the Social Security 218 Agreement to determine eligible employees.
- Review of the employer payroll records and related ASRS reports.
- Review of employees' time sheets and payroll records to determine eligibility.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.
- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.
- Review the salaries of retiring employees to determine whether there is salary spiking during the years prior to the employee retirement.
- Other detailed testing as required to meet the audit objectives.

**AUDITOR COMMENTS:**

Town of Hayden personnel were cooperative, informative and helpful in providing time reports, payroll records, and other information necessary to effectively complete the ASRS audit. Audit findings and recommendations were discussed and issues resolved.



**A REPORT TO THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**TOWN OF HAYDEN**

**FINDINGS AND RECOMMENDATIONS**

**JULY, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
TOWN OF HAYDEN  
RECOMMENDATIONS

**FINDING 1:**

**The Town of Hayden did not:**

- **Remit ASRS contributions for nine employees who were engaged to work at least twenty hours per week for at least twenty weeks in one or more fiscal years.**
- **Remit ASRS contributions on all eligible compensation for five employees.**
- **Return to its employees their excess contributions when the employee and employer shares were changed from a 53/47 split retroactively back to 50/50.**

A.R.S. § 38-711(23) defines an employee eligible to be a member in part as an employee who is “engaged to work at least twenty weeks in each fiscal year and at least twenty hours each week.” This is the basis for what is called the 20/20 eligibility criteria. A.R.S. § 38-736 states that member “contributions are required as a condition of employment and shall be made by payroll deductions. Member contributions shall begin simultaneously with membership in ASRS.”

For a period of time the Town reported the same amounts for every employee for every pay period. This resulted in both excess and insufficient amounts reported for the employees who were paid hourly rather than by salary. It even resulted in contributions being reported for five additional pay periods for a member after that member was deceased.

Nine employees of the Town worked at least twenty hours per week for twenty or more weeks during the fiscal year without paying contributions when they first became eligible. These employees should have been participating in the ASRS when they were engaged to work 20/20 or when they actually reached the twentieth week of working twenty or more hours, and through the end of that fiscal year.

Five employees had not had contributions withheld and remitted on all eligible compensation. In one instance, the employer started remitting contributions when the employee was engaged 20/20, omitted the next payroll, and then started properly remitting contributions. Two instances occurred at termination and may have resulted from ASRS contributions being discontinued on all ending pay rather than just the excludable termination payments. One was the result of a member’s reduced hours being reported during a period when he had returned to full-time status, and then failing to report actual hours worked, which sometimes included overtime. The final instance occurred when the employer did not report all eligible earnings in three pay periods.

Some of the employees had additional adjustments made because in fiscal year 2012, when the statutory requirement for total contributions changed to a 47/53 employer/employee split and then retroactively back to a 50/50 split, the employer did not return to the employees their excess contributions. Employees who owed contributions in 2012 have already had this correction included in amounts owed by the employees and employers. The employer still needs to return to the remaining employees their excess contributions.

The gross unreported earnings, employer and employee contributions and accrued interest due as determined by this audit are as follows:

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TOWN OF HAYDEN  
RECOMMENDATIONS

<b>Total Unreported Eligible Gross Earnings</b>	<b><u>116,936</u></b>
<b>Member Contributions</b>	<b>11,191</b>
<b>Employer Contributions</b>	<b>11,331</b>
<b>Estimated Interest Due</b>	<b>9,020</b>
<b>Total Estimated Due ASRS</b>	<b><u>\$ 31,542</u></b>

**Recommendations:**

1. The employer should notify each eligible employee when there is a change in eligibility status. ASRS contributions should be withheld from employees' earnings when an employee is engaged to work at least twenty weeks in each fiscal year and at least twenty hours per week (20/20 eligibility criteria) or when his or her status changes and he or she is reasonably expected to do so. For those employees who work irregularly from one week to the next, contributions should be withheld no later than the beginning of the twentieth week of working twenty or more hours.
2. All withheld contributions should be reported and remitted to the ASRS timely.
3. The employer should have all eligible non-contributors complete ASRS online enrollment and beneficiary forms, if applicable, so that contributions will be properly processed.
4. The employer should not change employees from eligible to ineligible until the end of the fiscal year. An eligible employee generally does not become ineligible during a fiscal year.
5. The employer should remit the employer retirement contributions, LTD contributions and interest, as calculated and billed.
6. The employer should distribute to the employees the invoices that will be generated for the employees' retirement and LTD contributions.
7. The employer should self-audit the eligibility of all employees for the fiscal year beginning July 1, 2013, and at the beginning of each new fiscal year thereafter. The employer should collect and remit contributions for all eligible employee earnings from July 1, 2013, including those employees identified as eligible in this audit.

**Employer Response:**

The Town of Hayden has contracted with an accountant that will be handling the contribution part of Arizona State Retirement and the town clerk will be responsible for getting the information to the employees. The accountant that had been working with Arizona State Retirement on this audit no longer is employed by the Town of Hayden.

**FINDING 2:**

**The Town of Hayden did not remit contributions withheld from the pay of three employees.**

A.R.S. § 38-711(23) defines an employee eligible to be a member in part as an employee who is "engaged to work at least twenty weeks in each fiscal year and at least twenty hours each week." This is the basis for what is called the 20/20 eligibility criteria. A.R.S. § 38-736 states that member "contributions are required as a condition of employment and shall be made by

ARIZONA STATE RETIREMENT SYSTEM  
TOWN OF HAYDEN  
RECOMMENDATIONS

payroll deductions. Member contributions shall begin simultaneously with membership in ASRS.”

The Town withheld contributions from three employees but failed to report and remit those contributions along with the employer matching contributions. The Town started reporting and remitting contributions for each employee later, but each employee had a delay of between two pay periods and about a year when their contributions were not sent to ASRS. No record could be found that these contributions were sent at another time.

The gross unreported earnings, employer and employee contributions and accrued interest due as determined by this audit are as follows:

<b>Total Unreported Eligible Gross Earnings</b>	<b><u>\$31,157</u></b>
<b>Member Contributions Already Withheld</b>	<b>2,865</b>
<b>Employer Contributions</b>	<b>2,865</b>
<b>Estimated Interest Due</b>	<b><u>2,582</u></b>
<b>Total Estimated Due ASRS</b>	<b><u>\$ 8,312</u></b>

**Recommendations:**

1. The employer should remit the employee retirement and LTD contributions that have been withheld, as well as the employer match and interest.
2. The employer should distribute to the employee the invoice that will be generated for the employee’s retirement and LTD contributions.
3. The employer should self-audit the eligibility of all employees for the fiscal year beginning July 1, 2013, and at the beginning of each new fiscal year thereafter. The employer should collect and remit contributions for all eligible employee earnings from July 1, 2013, including those employees identified as eligible in this audit.

**Employer Response:**

The Town of Hayden has contracted with an accountant that will be handling the contribution part of Arizona State Retirement and the town clerk will be responsible for getting the information to the employees. The accountant that had been working with Arizona State Retirement on this audit no longer is employed by the Town of Hayden.

**FINDING 3:**

**The Town remitted contributions for three individuals who contributed in one or more fiscal years even though they had not received any income for the pay periods.**

A.R.S. § 38-711, Subsection 23 defines an employee eligible to be a member in part as an employee who is “engaged to work at least twenty weeks in each fiscal year and at least twenty hours each week.” This is the basis for what is called the 20/20 eligibility criteria. Members who work fewer than 20 hours per week are not eligible to participate at all.

For a period of time the Town reported the same amounts for every employee for every pay period. This resulted in both excess and insufficient amounts reported for the employees who

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TOWN OF HAYDEN  
RECOMMENDATIONS

were paid hourly rather than by salary. For these three individuals, contributions were remitted and pay was reported for several pay periods in which the employees received no pay at all. It even resulted in contributions being reported for five additional pay periods for a deceased employee.

The gross ineligible earnings, employer and employee pension and LTD contributions as determined by this audit are as follows:

<b>Total Ineligible Gross Earnings</b>	<b><u>\$6,832</u></b>
<b>Ineligible Member Pension Contributions</b>	<b>728</b>
<b>Ineligible Member LTD Contributions</b>	<b>16</b>
<b>Ineligible Employer Pension Contributions</b>	<b>728</b>
<b>Ineligible Employer LTD Contributions</b>	<b>16</b>
<b>Total Estimated to be Credited to Employer</b>	<b><u>\$ 1,488</u></b>

**Recommendations:**

1. The Town should request a credit for the employees' reported wages identified as ineligible in the audit.
2. The Town should return to its employees any ineligible amounts that were withheld from the employees and have been returned to the Town, if applicable.
3. The Town should not report earnings and remit contributions unless an employee has actually earned compensation and had contributions withheld.
4. The Town should reassess its employees' eligibility at the end of every fiscal year for those employees whose work hours have changed.

**Employer Response:**

The Town of Hayden has contracted with an accountant that will be handling the contribution part of Arizona State Retirement and the town clerk will be responsible for getting the information to the employees. The accountant that had been working with Arizona State Retirement on this audit no longer is employed by the Town of Hayden.

**FINDING 4:**

**The Town has not remitted the alternate contribution rate (ACR) payments for its retirees who have returned to work.**

A.R.S. § 38-766.02 requires that an employer "shall pay contributions at an alternate contribution rate on behalf of a retired member who returns to work in any capacity in a position ordinarily filled by an employee of the employer". The Town had two retirees employed in fiscal years 2013 and 2014 but have not paid any ACR to date. The ACR owed has been calculated through the first quarter of FY 2014, the latest information available. The employer has also not paid an ACR on an independent contractor that it has employed in FY 2014.

The ACR should be paid through the ASRS web site so that the exact accrued interest can be determined with the payment when it is made.

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RECOMMENDATIONS

The gross eligible earnings and estimated employer ACR payments as determined by this audit are as follows:

<b>Total Retirees' Gross Earnings</b>	<b><u>\$25,950</u></b>
<b>Employer ACR Contributions</b>	<b>2,275</b>
<b>Estimated Interest Due</b>	<b>375</b>
<b>Total Estimated Due ASRS</b>	<b><u>\$2,650</u></b>

**Recommendations:**

1. The Town should contact ASRS to learn how to use the online system to pay the ACR owed.
2. The Town should pay the back ACR payments through the online system that will calculate interest owed up to the date of payment.
3. The Town should pay all current and future ACR amounts owed in a timely manner.

**Employer Response:**

The Town of Hayden has contracted with an accountant that will be handling the contribution part of Arizona State Retirement and the town clerk will be responsible for getting the information to the employees. The accountant that had been working with Arizona State Retirement on this audit no longer is employed by the Town of Hayden.

**FINDING 5:**

**The Town of Hayden had not ensured that all retirees returning to work under A.R.S. § 38-766.01 complied with the requirement that they acknowledge the provisions of the statute in writing within thirty days of returning to work.**

A.R.S. § 38-766.01 provides the guidelines for retirees who wish to work after retirement. In addition to the requirements that the retiree have attained normal retirement age; have terminated employment at least twelve months before returning to work; and if a teacher, no longer be subject to the statutes regarding tenure; written documentation is required within thirty days according to A.R.S. § 38-766.01(C). If the retiree complies with these requirements, he or she shall not pay contributions or accrue credited service, retirement benefits or long-term disability program benefits.

The Town had two retirees who returned to work as direct employees, only one of whom was working 20/20. This retiree needed the return to work acknowledgment. Representatives of the Town were informed of this requirement at the beginning of field work but did not have an acknowledgment on file before the end of field work.

**Recommendations:**

The Town should have this retiree complete the member portion of a return to work form, and the employer should complete the employer portion. A copy should be sent to the ASRS. In the future, the Town should ensure that all retirees who are hired to work in excess of the 20/20 eligibility criteria acknowledge in writing all the provisions of A.R.S. § 38-766.01 within thirty days of commencing employment. A best practice, although not required, would be to have all working retirees complete written documentation so they would receive information on the requirements that must be met if a retiree wishes to

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work after retirement without returning to active membership. Also, it would be on file if the retiree reached membership eligibility.

**Employer Response:**

The Town of Hayden has contracted with an accountant that will be handling the contribution part of Arizona State Retirement and the town clerk will be responsible for getting the information to the employees. The accountant that had been working with Arizona State Retirement on this audit no longer is employed by the Town of Hayden.



**A REPORT TO THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**ALTAR VALLEY SCHOOL DISTRICT**

**SEPTEMBER, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
ALTAR VALLEY SCHOOL DISTRICT  
SEPTEMBER, 2014

The audit of Altar Valley School District (District) was completed September 19, 2014, for the period July 1, 2011 through June 30, 2014.

The audit objectives are to determine whether the District is in compliance with Arizona State Retirement System (ASRS) statutes governing the following:

- Eligible compensation and required contributions reported to the ASRS.
- Accurate and timely enrollment of all eligible employees.
- Reporting and remitting of the employees' and employer's share of contributions.
- Medical and dental insurance premium benefits payable to retired employees.
- Retirees' return to work.
- Termination incentive programs.

**SUMMARY OF FINDINGS:**

Based on the results of the work performed to meet the above audit objectives, the following statement summarizes the findings presented to Altar Valley School District:

**The District:**

- **Did not remit the alternative contribution (ACR) due for three of its returned to work retirees.**
- **Applied and remitted contributions on four employee's lump sum payment for accumulated leave upon termination of employment.**

**BACKGROUND**

The District joined the ASRS July 1, 1972, by executing an Application and Social Security 218 agreement. The District currently has approximately 115 employees contributing to the ASRS.

**DESCRIPTION OF AUDIT WORK PERFORMED**

The audit work performed during this engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2011 through June 30, 2014. The auditor reserves the right to expand the scope of the audit when circumstances dictate discrepancies with ASRS statutes or federal laws. The auditor reviewed pertinent documentation and interviewed personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

- Review of the Social Security 218 agreement to determine eligible employees.
- Review of the employer payroll records and related ASRS reports.

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ALTAR VALLEY SCHOOL DISTRICT  
SEPTEMBER, 2014

- Review of employees' time sheets and payroll records to determine eligibility.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.
- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.
- Review the salaries of retiring employees to determine whether there is salary spiking during the years prior to the employee retirement.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

**AUDITOR COMMENTS:**

The District personnel were cooperative, informative and helpful in providing time reports, payroll records, and other information necessary to effectively complete the ASRS audit. Audit findings and recommendations were discussed and issues resolved in a timely manner.



**A REPORT TO THE  
ARIZONA STATE RETIREMENT SYSTEM  
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**ALTAR VALLEY SCHOOL DISTRICT**

**FINDINGS AND RECOMMENDATIONS**

**SEPTEMBER, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
ALTAR VALLEY SCHOOL DISTRICT  
RECOMMENDATIONS

**FINDING 1:**

**The District did not remit the alternative contribution due for three of its returned to work retirees.**

A.R.S. § 38-766.02 provides the guidelines for payment of the alternative contribution rate (ACR) for retirees who work after retirement. According to the statute, “an employer shall pay contributions at an alternate contribution rate on behalf of a retired member who returns to work in any capacity in a position ordinarily filled by an employee”. The ACR is to be “applied to the compensation, gross salary or contract fee of a retired member who meets the requirements of this section.”

Altar Valley School District had three return-to-work retiree’s where no alternative contribution was remitted on eligible wages.

The estimated ACR due, excluding interest, as determined by this audit is as follows:

<b>Total estimated ACR due:</b>	<b>\$4,043.71</b>
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**Recommendation(s):**

1. The District should contact its contributions accounting representative at the ASRS to make arrangements for payment, including interest, of the alternative contribution due.
2. The District should self-audit the return to work retirees for the fiscal year beginning July 1, 2014, and remit contributions for all retirees’ earnings.

**Employer Response:**

The district will contact their ASRS acct representative to make arrangements for payment. The district will perform a self-audit beginning July 1, 2014 on return to work retirees.

**FINDING 2:**

**The District applied and remitted contributions on four employees’ lump sum payment for accumulated leave upon termination of employment.**

A.R.S. § 38-711 paragraph 7 subdivision (a) states that compensation “does not include: Lump sum payments, on termination of employment, for accumulated vacation or annual leave, sick leave, compensatory time or any other form of termination pay... .” This exclusion from compensation, per paragraph 5 subdivision (b), applies “to members whose membership in ASRS was effective on or after January 1, 1984 but before July 1, 2011.” Contributions were withheld on four employee’s termination pay.

The gross earnings and employer and employee contributions to be credited to the employer’s account, as determined by this audit are as follows:

ARIZONA STATE RETIREMENT SYSTEM  
ALTAR VALLEY SCHOOL DISTRICT  
RECOMMENDATIONS

<b>Total Gross Earnings</b>	<b><u>\$58,764.67</u></b>
<b>Member Contributions</b>	<b>6,781.44</b>
<b>Employer Contributions</b>	<b>6,781.44</b>
<b>Total Credit</b>	<b><u>\$13,562.88</u></b>

**Recommendation(s):**

1. The District should contact its contributions accounting representative at the ASRS to make arrangements to take this available credit.
2. The District should not adjust the amount it owes to the ASRS by reducing it by the amount owed by the ASRS because the accounts are separate.
3. The District should self-audit termination pay for all employees for fiscal year beginning July 1, 2014.

**Employer Response:**

The district will contact their ASRS acct representative to make arrangements for the credit. The district is now aware that ASRS should not be taken out of termination pay and will perform a self-audit beginning July 1, 2014.