



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS, AUDIT & LEGISLATIVE COMMITTEE

**Wednesday, July 10, 2019
2:30 p.m., Arizona Time**

A quorum of the Operations, Audit & Legislative Committee (OALC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Clark Partridge, Vice-chair of the OALC, called the meeting to order at 2:36 p.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Mr. Clark Partridge, Vice-chair, welcomed the attendees.

Present: Mr. Jim Hillyard, Chair (joined the meeting at 2:44 p.m.)
Mr. Clark Partridge, Vice-chair
Mr. Michael Miller

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

2. Approval of the Minutes of the April 10, 2019 Public Meeting and Executive Session of the OALC

Motion: Mr. Michael Miller moved to approve the Minutes of the April 10, 2019, Public Meeting and Executive Session of the OALC. Mr. Clark Partridge seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved. The Trustee votes were as follows:

Mr. Jim Hillyard – excused
Mr. Clark Partridge – approved
Mr. Michael Miller – approved

3. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including:

- a. Presentation/update of the ASRS Appropriated and Continuously Appropriated Budget Plans and the ASRS Administrative and the Investment Spending Plans for Fiscal Year (FY) 2020**
- b. Presentation of the ASRS Appropriated and Continuously Appropriated Budget Request and the ASRS Administrative and Investment Spending Plans for FY 2021**

Mr. Anthony Guarino introduced the topic stating the proposal was prepared by keeping the following in mind: cost effectiveness, being fiscally responsible and with the ability to meet our strategic priorities. Mr. Guarino shared with the Committee there is only one peer pension plan that is lower in cost and higher in service than the ASRS based on the CEM review which confirms the ASRS is obtaining its desired results. Mr. Guarino turned the presentation over to Ms. Martha Rozen, Chief of Administrative Services, and her team.

Ms. Rozen opened the discussion by introducing the team of staff responsible for the materials being presented to the Committee. She also introduced the Budget Analysts from the Joint Legislative Budget Committee and the Office of Strategic Planning and Budget, who assist the agency with the budget submission and moving it forward to the Governor's Office and the Legislature. Ms. Rozen provided a summary of the discussion ahead stating the budget and spending plans submissions focus on Strategic Priority #4: Optimizing Operational Effectiveness, as well as support all the strategic priorities by ensuring resources. Ms. Rozen turned the presentation over to Mr. Chris Gustafson, Budget and Procurement Manager.

Mr. Gustafson reviewed the budget recommendation with the Committee. Mr. Gustafson highlighted the following:

- Budget includes key performance indicators to reduce the base administration budget by 3% between FY 2017 and FY 2021. The agency has not only met that goal but has exceeded it.
- The projection for FY 2020 is that the base administration expenditures will decrease by approximately 3.8%.
- FY 2020 and FY 2021, the agency identified two significant priorities that will be the basis of the spending plan.
 - Data, transactional and network security
 - Information technology applications development and infrastructure architecture enhancements
- The ASRS is currently undertaking three new projects in addition to two ongoing projects
 - Benefits Disbursements
 - Automation upgrades in Oracle Modernization
 - Information Protection Security
 - Technology Improvement (ongoing)
 - Risk Mitigation (ongoing)

Mr. Gustafson responded to questions from the Committee and turned the presentation over to Ms. Kerry White, Assistant Chief Investment Officer, to review the Investment Spending Plan as follows:

- The bulk of the requested budget is for management fees in public and private markets

- Only used approximately 36% of the projected costs for management fees with the prior year's move from active portfolio management to passive portfolio management

Mr. Jim Hillyard joined the meeting at 2:44 p.m.

Motion (1): Mr. Clark Partridge moved to accept and forward to the ASRS Board of Trustees the following:

- 1) An appropriated budget request for FY 2021 in the amount of \$24,194,000, with an understanding there may ultimately be changes to the total appropriated budget amount due to legislative and executive recommendations.

Mr. Michael Miller seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Jim Hillyard – approved
Mr. Clark Partridge – approved
Mr. Michael Miller – approved

Motion (2): Mr. Mike Miller moved to accept and forward to the ASRS Board of Trustees the following:

- 2) The proposed administrative spending plan of \$30,033,300 and continuously appropriated investment spending plan of \$138,267,200 for FY 2021 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid.

Mr. Clark Partridge seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Jim Hillyard – approved
Mr. Clark Partridge – approved
Mr. Michael Miller – approved

4. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Harold Mackey, Chief Internal Auditor, reviewed the quarterly audit report with the Committee and provided the status of projects Internal Audit Division (IAD) is currently working on. Mr. Mackey noted there will be some activities that will roll over from the FY 2019 Audit Plan into the upcoming Audit Plan due to varying delays. Mr. Mackey announced the vacant auditor position has been filled and IAD is currently working with management to ensure the Biennial Audit Plan for FYs 2020/2021 aligns with the agency's strategic priorities. Mr. Mackey expects to present the FYs 2020/2021 Biennial Audit Plan at the October OALC meeting.

Mr. Mackey responded to questions from the Committee.

5. Review of Recently Conducted Audits

Mr. Mackey turned the presentation over to Ms. Rosie Tomforde, ASRS Audit Officer, who reviewed the following audits conducted by the Internal Audit Division (IAD):

a. Espiritu Schools – Employer Audit

This audit was at the request of the ASRS Employer Relations after noticing the expansion of multiple schools within one charter to multiple schools under multiple charters. The IAD had two findings from the Espiritu Schools audit. The employer agreed with the findings and IAD's recommendations.

b. Vendor Efficacy – Internal Process

The IAD had three findings from the ASRS Vendor Efficacy review of internal processes. The agency agreed with the findings and most of the IAD recommendations. It was noted that with regard to the underutilization of Skillsoft, one of the recommendations could put the agency at risk of an FLSA violation and one could jeopardize meeting business unit, division and agency goals.

Ms. Tomforde responded to questions from the Committee.

6. Requests for Future Agenda Items

The Committee confirmed the agency's plan for future security updates. Mr. Guarino confirmed, based on the discussion at the April 10, 2019, OALC meeting, the security updates will be presented on a quarterly basis to the OALC beginning with the October 9, 2019, meeting.

7. Call to the Public

No members of the public requested to speak.

8. The next regular public OALC meeting is scheduled for Wednesday, October 9, 2019, at 2:30 p.m., at 3300 N. Central Avenue, in the 14th Floor Conference room, Phoenix, Arizona.

Mr. Jim Hillyard noted the next OALC meeting is scheduled for Wednesday, October 9, 2019 at 2:30 p.m.

9. Adjournment of the OALC

Motion: Mr. Michael Miller moved to adjourn the meeting at 3:32 p.m. Mr. Clark Partridge seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Jim Hillyard – approved
Mr. Clark Partridge – approved
Mr. Michael Miller – approved

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM