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

Wednesday, January 9, 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. Jim Hillyard, Chair of the OALC, called the meeting to order at 2:31 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. Jim Hillyard, Chair, welcomed the attendees and expressed appreciation for those in attendance and the work that went in to preparing for the meeting.

Present: Mr. Jim Hillyard, Chair
Ms. Clark Partridge, Vice-chair (joined the meeting at 2:35 p.m.)
Mr. Michael Miller

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

2. Approval of the Minutes of the October 3, 2018 Public Meeting of the OALC

Motion: Mr. Michael Miller moved to approve the Minutes of the October 3, 2018, Public Meeting of the OALC. Mr. Jim Hillyard 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 – approved
Mr. Clark Partridge – excused
Mr. Michael Miller – approved
3. Presentation, Discussion, and Appropriate Action Regarding an Update on Strategic Priority #6: Ensure Operational Continuity

Mr. Clark Partridge joined the meeting at 2:35 p.m.

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, opened the discussion by recognizing the importance of operational continuity and acknowledging the shared consensus when developing the Strategic Plan and the need to focus on workforce planning. Mr. Guarino highlighted the following:

- Goal is to sustain high performing and engaged staff
- Continuously develop new leaders
- Performance indicators developed
- Workforce plan in place with at least two potential candidates for key positions
- Monthly meetings conducted to keep abreast of staffing issues and their impact on the agency’s ability to meet goals

Mr. Guarino turned the presentation over to Ms. Martha Rozen, Chief of Administrative Services, who advised the Committee that Ms. Tracy Darmer, Human Resources and Development Program Manager, was not able to participate in today’s presentation but the remaining presenters would be covering her points.

Ms. Rozen opened the presentation by indicating the team would be sharing highlights from the strategies utilized to ensure operational continuity and demonstrate how they work together and identified the team members and their topics.

Ms. Jana George, Human Resources Generalist, provided the following highlights regarding workforce planning:

- Workforce planning began in 2015 with phase I – identification of key positions, including essential competencies for success for the key positions and identification of potential successors within the ASRS to fill the key positions in the future
- Phase II – development planning for potential successors to prepare them for key positions
- Phase III – current phase, involves updating the workforce plan and development plan as staff have moved on or retired

Ms. George closed the workforce planning discussion and responded to questions from the Committee.

Ms. Rozen provided the following highlights regarding key components of ASRS training opportunities, including professional and leadership development offerings:

- Goal is to increase engagement and staff retention
- Program allows for professional development of up to 24 hours per fiscal year
- Job shadowing is a program offered to staff who has an interest in a particular career path providing them the ability to work with a member of the program area to see what they do to determine their professional development needs
- Encourages cross-training of staff to ensure coverage of all responsibilities
- Training/professional development opportunities may also come through team project assignments
- Skillsoft courses available – an online educational tool with a wide range of courses to choose from in a variety of topics
- Online training through ADOA is also available
- An internal leadership development program which includes topics such as, Situational Leadership, Principles and Qualities of Genuine Leadership is provided
- Tuition Assistance Program

Ms. Rozen responded to questions from the Committee.

As a prelude into the next phase of the presentation Mr. Hillyard asked Mr. Neal Park, Human Resources Generalist, to provide the Committee with some statistics regarding the vacancy rate and average time to fill positions for the last year to give the Committee a sense of efficacy of the ASRS’ recruitment effort. Mr. Park reviewed the requested information for 2018. Mr. Park then provided the following highlights regarding talent acquisition, tools utilized to monitor compensation and turnover:

- Recruitment
  - Customize plan for the position being filled to address foreseeable challenges
  - Increase exposure to job ads as necessary
  - Targeted communication to qualified applicants when needed
  - Always seeking ways to improve and reduce the recruitment time period
  - Constant communication with the hiring manager
- Compensation
  - Staying aware of the market conditions by participating in and receiving results of market surveys
  - Receive information from exiting employees
  - Various external statistical reports for relevant turnover rates, local unemployment rates, cost of living, consuming price index and changes in average hourly earnings
  - Conduct annual review of agency salaries for competitiveness
  - Executive and Senior management work to identify funding to adjust salaries to meet the needs of the organization
  - Use variable compensation tools to reward performance such as Spot & Goal Based Awards, recognition leave and utilize an investment compensation plan for investment staff
- Turnover
  - Average 2-3 exits per month from the agency
  - Heightened the attention to the reason individuals are leaving the agency
  - Many are leaving due to retirement – the agency is likely to see 4-6 retirements within the next six months

Mr. Park and Mr. Guarino responded to questions from the Committee.

Ms. George concluded the topic presentation by providing the following highlights regarding employee engagement while responding to questions from the Committee:

- ASRS participates in the annual statewide employee engagement survey
  - Strategic goal is to receive a 9:1 ratio of engagement with a risk tolerance of 4:1 ratio
  - 2018 received a ratio of 3:1
Conduct confidential focus groups with staff upon receipt of survey results to clarify the survey results
- Feedback is shared with management in confidence
- Action plans are developed in response to the feedback
- Action plans are communicated to the employees

- Work Environment Team (WE)
  - Group of volunteer employees across the agency who create meaningful programs and activities to enhance the work environment, support the PRIDE values and promote spirit and unity within the ASRS for the purpose of increasing employee engagement and retention
  - WE Team members are provided the opportunity to lead work groups within the WE Team enabling them to build their leadership and project management skills
  - Members obtain coaching and mentoring better preparing them for future leadership opportunities
  - Programs developed by the WE Team include: Professional Development and Job Shadowing, PRIDE Recognition, Bright Idea, Service Awards, and the New Employee Orientation
  - Fund raisers held by the WE Team include: annual silent auction, variety of food sales, and casual day sales to fund three major employee events per year
  - Annual employee events include: the Spring Picnic, a summer or fall event, and the Winter Festival
  - Coordinates charitable activities that benefit external charitable organizations throughout the year

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS' Risk Management Program

Mr. Guarino introduced the topic which is another agency priority. He noted he concluded a couple of years ago that the agency’s approach was becoming less relevant in terms of results and the timeliness of the results, thus an upgrade was needed. Mr. Guarino turned the presentation over to Ms. Lisa King, Strategic Planning Analyst, who took over the presentation.

Ms. King provided the following highlights:
- Past History
  - ASRS has been conducting formalized risk management activities since 2007
  - Continually striving to evolve the program
  - Created the Enterprise Risk Management Committee
  - Re-evaluated risk assessment processes in 2016 with a heavy focus on security, privacy and cash management
  - Decision was made to automate
- Tool Selected – SWORD Active Risk Manager (ARM)
  - Automation equals efficiency
  - Wanted real-time visibility using one tool with secure access
  - Eliminate wasted time gathering updates and compiling reports
  - Assign owners and accountability
  - Create actionable information from the data
  - Ability to create reports on demand
  - Needed a historical repository
  - Capable of handling administrative tasks such as email alerts
Includes Internal Audit functionality which the Internal Audit Division is currently exploring
- ARM has built-in security – staff will be limited to what information they can see according to their role
- Software is configurable
- Contains a wide-variety of canned reports with the ability to purchase service for additional reports in the future if needed
- Ability to rank the same risk differently depending on the audience that is ranking it

- Roll-out Plan
  - Configuration currently in process
  - Historical risks and controls are currently being entered by the Strategic Planning and Analysis Team
  - Training will begin with the business areas by introducing them to the software and having them complete an assessment of the information that has been entered and add new information as deemed necessary
  - Plan is to have roll-out to staff and in use by the end of this fiscal year – June 30, 2019

- Future Reporting Plan as documented in the Strategic Plan
  - Monthly: Report Risks Outside of Appetite
  - Quarterly: Comprehensive Deputy Director update
  - Biannually: Comprehensive Senior Management update
  - Annually: Comprehensive Leadership update

Ms. King responded to questions from the Committee.

Mr. Clark Partridge commended staff on moving in this direction indicating the agency appears to be ahead of other state agencies.

5. 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 he is working on a strategic plan for IAD that will align with the agency’s strategic plan as this is important for the Committee to see whether the IAD is meeting their objectives as they are independent from the agency. Additionally, Mr. Mackey advised he plans to present the Biennial Audit Plan for FY2020-2021 at the April 10, 2019 OALC meeting. This Audit Plan will be a two-year plan as opposed to the last two years which were one-year plans due to the changes and transitions occurring in the IAD.

Mr. Mackey advised two audits were in their final stages and should be ready for presentation to the Committee at the April meeting as well; Vendor Efficacy and Espiritu Schools. Quality review of the new Service Purchase/Contributions Not Withheld will recommence the end of January and be reported to the Board at the end of the fiscal year. Mr. Mackey further advised IAD will begin to plan for monitoring the in-house disbursements now that this process is in production to ensure all the appropriate controls are in place.

Mr. Mackey reviewed planning activities and responded to questions from the Committee.
6. Requests for Future Agenda Items

None were requested.

7. Call to the Public

No members of the public requested to speak.

8. The next regular public OALC meeting is tentatively scheduled for Wednesday, April 10, 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, April 10, 2019 at 2:30 p.m.

9. Adjournment of the OALC

Motion: Mr. Clark Partridge moved to adjourn the meeting at 4:20 p.m. 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

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM