

AGENDA

NOTICE OF COMBINED PUBLIC MEETING AND POSSIBLE EXECUTIVE SESSION OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS, AUDIT, AND LEGISLATIVE COMMITTEE

October 14, 2020
2:30 p.m.

Pursuant to A.R.S. § 38-431.02(F), notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Operations, Audit, and Legislative Committee (OALC) and to the general public that the ASRS OALC will hold a **telephonic** meeting open to the public on Wednesday, October 14, 2020, beginning at 2:30 p.m. To help prevent community spread of COVID-19, no members of the public will be permitted to attend the meeting in-person. **Trustees of the Board and the public may attend by telephone conference call at 877-820-7831, using Participant Passcode: 857127#.**

This is a regularly scheduled meeting of the OALC; 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 OALC governance procedures. Actions requiring Board authority will be presented to the full Board for final decision.

Pursuant to A.R.S. § 38-431.03(A)(3), the ASRS OALC may vote to go into executive session, which will not be open to the public, for the purpose of obtaining legal advice on any item on the Agenda.

The Chair may take public comment during any agenda item.

The following agenda topics are proposed action items: 2, 3, 5, 6 and 8

The agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks Mr. Clark Partridge
OALC Chair
2. Approval of the Minutes of the July 8, 2020, Public Meeting and Executive Session of the OALC (*estimated time: 1 minute*) Mr. Clark Partridge

Proposed Action Item: The Committee may decide whether to amend and approve the minutes, approve the minutes as written, or not approve the minutes at this time.

3. Approval of the Minutes of the August 20, 2020, Ad Hoc Public Meeting of the OALC (estimated time: 1 minute) Mr. Clark Partridge

Proposed Action Item: The Committee may decide whether to amend and approve the minutes, approve the minutes as written, or not approve the minutes at this time.

4. Presentation, Discussion, and Appropriate Action Regarding: The Results of the 2020 Employer and Retiree Surveys, and the Survey Plan and Priorities for 2021 (estimated time: 20 minutes) Mr. Paul Matson
Director
..... Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
..... Ms. Sara Orozco
Manager, Strategic Planning and Analysis
..... Ms. Katie Daigneault
Strategic Planner and Survey Administrator

5. Presentation, Discussion, and Appropriate Action Regarding the 2021 ASRS Legislative Initiatives (estimated time: 10 minutes)..... Mr. Paul Matson
..... Mr. Anthony Guarino
..... Ms. Jessica Thomas
Government Relations Officer and Rules Writer

Proposed Action Item: The Committee may consider staff's recommendation; provide an alternate motion, or make no motion.

6. Presentation, Discussion, and Appropriate Action Regarding 2020 Rulemaking Initiative Related to Unfunded Liability Invoices (estimated time: 10 minutes) Mr. Paul Matson
..... Mr. Anthony Guarino
..... Ms. Jessica Thomas

Proposed Action Item: The Committee may consider staff's recommendation; provide an alternate motion, or make no motion.

7. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Annual Report and Quarterly Update (estimated time: 20 minutes)..... Mr. Paul Matson
..... Mr. Anthony Guarino
..... Mr. Harold Mackey
Chief Internal Auditor

8. Presentation, Discussion, and Appropriate Action Regarding the 2021 Calendar Year OALC Meeting Schedule (estimated time: 5 minutes) Mr. Clark Partridge

Proposed Action Item: The Committee may consider staff's recommendation; provide an alternate motion, or make no motion.

9. Call to the Public Mr. Clark Partridge

Those wishing to address the ASRS OALC will be requested to do so telephonically. Trustees of the OALC are prohibited by A.R.S. § 38-431.01(H) 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 OALC may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

10. Requests for Future Agenda Items Mr. Clark Partridge
..... Mr. Anthony Guarino

11. The next regular public OALC meeting is tentatively scheduled for Wednesday, January 13, 2021, at 2:30 p.m.

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(2), notice is hereby given to Trustees of the ASRS OALC and the general public that the ASRS OALC may vote to go into executive session, which will not be open to the public, for the purpose of discussion or consideration of records exempt by law from public inspection.

12. Presentation, Discussion, and Appropriate Action Regarding the 2020 ASRS Cash Controls Review by CliftonLarsonAllen (estimated time: 15 minutes) Mr. Paul Matson
..... Mr. Anthony Guarino
..... Ms. Erin Higbee
Chief Financial Officer and Assistant Director, Financial Services Division
..... Ms. Erica Syring
Controller, Financial Services Division
..... Mr. Jason Ostroski
Principal, CliftonLarsonAllen
..... Ms. Brittany Smith
Manager, CliftonLarsonAllen

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(2), notice is hereby given to Trustees of the ASRS OALC and the general public that the ASRS OALC may vote to go into executive session, which will not be open to the public, for the purpose of discussion or consideration of records exempt by law from public inspection.

13. Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program (estimated time: 30 minutes)
- a. 2020 ASRS Privacy Assessment Review by CliftonLarsonAllen
 - b. ASRS Information Security and Privacy Program Update
- Mr. Paul Matson
..... Mr. Anthony Guarino
..... Mr. Jeff Hickman
Information Security Officer

14. Adjournment of the OALC

A copy of the agenda background material provided to the OALC 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 4400 East Broadway Boulevard, Suite 200, 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/content/board-and-committee-meetings>) approximately 48 hours prior to the meeting.

Persons with disabilities may request 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 October 7, 2020

ARIZONA STATE RETIREMENT SYSTEM

Signature on File

Melanie Alexander
Committee Administrator

Signature on File

Anthony Guarino
Deputy Director and Chief Operations Officer

Agenda Item #2

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

**Wednesday, July 8, 2020
2:30 p.m., Arizona Time**

A quorum of the Operations, Audit & Legislative Committee (OALC) of the Arizona State Retirement System (ASRS) met telephonically in public session.

Mr. Clark Partridge, Chair of the OALC, called the meeting to order at 2:32 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge, Chair
Mr. Tom Manos, Vice-chair
Mr. Rene Guillen

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

Mr. Clark Partridge, Chair, welcomed the attendees and thanked staff for their hard work and preparation for the meeting.

Ms. Joyce Williams, ASRS Committee Administrator, provided all attendees with telephonic meeting guidelines.

2. Approval of the Minutes of the April 8, 2020 Public Meeting and Executive Session of the OALC

Motion: Mr. Tom Manos moved to approve the Minutes of the April 8, 2020, Public Meeting and Executive Sessions of the OALC. Mr. Rene Guillen seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

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

Mr. Harold Mackey reviewed the quarterly audit report with the Committee and provided the status of projects the Internal Audit Division (IAD) is currently working on. Mr. Mackey indicated the audit team is currently not working at full capacity due to various reasons. Mr. Mackey reviewed the items in the "Follow-up Monitoring", noted significant progress has been made on the legislative implementation items, and they were waiting for the most recent report from CliftonLarsenAllen on the Cash Controls Audit follow-up, which was expected within the next week, or two. Mr. Mackey further noted they were able to make a significant turnaround with regard to the GASB 68 fieldwork/testing. Both FY2019 and FY2020 have been completed. Mr. Mackey reviewed some of the workplan modifications made since the last OALC meeting as follows:

- Priority ranking added to each audit
- Target field added to identify progress
- Highlight added on audits exceeding 10% of planned audit hours
- Revised column added to highlight adjustments

Mr. Mackey briefly reviewed the "Budget/Hours Allocation" slides.

4. Review of Recently Conducted Audits

Mr. Mackey reviewed the following audit conducted by the IAD:

a. Investment Management Fees – Internal Process

The IAD had no findings from the ASRS Investment Management Fees review of internal processes. This audit was initiated by an auditor who is no longer with the ASRS, therefore, completed by Mr. Mackey. This was a complex audit, as each contract had to be read, with no two alike. The primary focus was on private equities.

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

- a. The ASRS Appropriated and Continuously Appropriated Budget and Spending Plans for Fiscal Year (FY) 2021.**
- b. The ASRS Appropriated and Continuously Appropriated Budget Request and Spending Plans for FY 2022.**

Mr. Anthony Guarino introduced Ms. Martha Rozen, Chief of Administrative Services, Mr. Chris Gustafson, Budget and Procurement Manager, and Ms. Kerry White, Assistant Chief Investment Officer who led the discussion and present the proposed spending plans.

Ms. Rozen opened the discussion by recognizing Ms. M. Harrison, Budget Manager, who provided a great deal of assistance and input with preparing the materials. Ms. Rozen added that although Mr. Gustafson and Ms. White will be presenting the materials, she, Ms. Harrison and Mr. Dave King, Assistant Director, Technology Services Division, would be available to answer any questions the Committee may have regarding the proposal. Ms. Rozen turned the presentation over to Mr. Gustafson.

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

- The budget includes key performance indicators to reduce the base administration budget by 3% from FY 2017 to FY 2020. The agency has not only met that goal but has exceeded it and reduced its base administrative spending by 4.68%.
- Over the course of the next several fiscal years, the ASRS continues to focus on managing budgets and implementing strategies designed to improve operational effectiveness and make the ASRS more cost effective.
- FY 2021 and FY 2022, administrative spending plans support system and technology modernizations, the framework of the ASRS business model, with an emphasis on security risk mitigation and re-engineering of processes. These investments in technology will help the ASRS avoid future costs associated with inefficient processes.
- FY 2022 the ASRS must complete its required migration to the cloud, upgrade an essential system and implement a critical technology solution to further safeguard data. This will require an increase in the budget request of the ASRS' base operating appropriations. Mr. Gustafson provided the following details:
 - In 2019 the Arizona Department of Administration implemented a Cloud First policy which necessitates the ASRS to migrate its infrastructure for data, systems, servers, and processes from its current physical data center to a cloud environment. With this will come a one-time Cloud Migration transition cost for external consulting resources, followed by ongoing annual Cloud costs for Cloud services.
 - The current version of FileNet is no longer supported and the ASRS will need external resources to successfully configure and implement an upgrade necessary to eliminate any disruption in service to this document management system.
 - Data subsetting, a software product compatible with core applications to allow teams to utilize only the relevant section of the ASRS' database rather than the full system will enable the ASRS to work on improvements without affecting the entire database or creating business disruption, along with enhancing data security.

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:

- FY 2021 and FY 2022 are relatively the same; with very little differences in the projections
- The bulk of the requested budget is for management fees in public and private markets
- Changes to the spending plan may occur from additional automation of workflow, mandate changes to the portfolio, regulatory or legislative changes or management decisions.
- Finalization of contractual changes currently in progress for additional automation of workflow, which will come with additional costs that are not reflected in the materials presented, but will be updated as the information becomes available.

Motion: Mr. Tom Manos moved to accept and forward to the ASRS Board of Trustees the following:

- 1) An appropriated budget request for FY 2022 in the amount of \$24,969,000, with an understanding there may ultimately be changes to the total appropriated budget amount due to legislative and executive recommendations.
- 2) The proposed administrative spending plan of \$30,596,300 and continuously appropriated investment spending plan of \$103,925,900 for FY 2022 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid.

Mr. Rene Guillen seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

6. Call to the Public

No members of the public requested to speak.

7. Requests for Future Agenda Items

None were requested.

8. The next regular public OALC meeting is scheduled for Wednesday, October 14, 2020, at 2:30 p.m.

Mr. Clark Partridge noted the next OALC meeting is scheduled for Wednesday, October 14, 2020 at 2:30 p.m.

9. Presentation, Discussion, and Appropriate Action Regarding the ASRS Group Medical Benefits Program Solicitation and Request for Proposal (RFP)

Mr. Paul Matson, Director, introduced Ms. Athena Elliston, Budget and Procurement Analyst, Administrative Services Division, who will be presenting on behalf of the Procurement Team.

Ms. Elliston opened the presentation stating the purpose of today's presentation is to present a recommendation for review and consideration for contract award for the ASRS group medical insurance and pharmacy services program.

Ms. Elliston further stated contracts are typically awarded for a maximum of five years and the current contract for medical and pharmacy services is in its fifth year; due to expire at the end of the calendar year, which is why the ASRS solicited for these services with an RFP. Ms. Elliston shared the ASRS was fortunate to have received a seven offers during this solicitation which are identified in the cover memo of the meeting materials.

Ms. Elliston advised the Committee the details of the review committee were included in the meeting materials and are confidential. If the Committee had specific questions regarding those materials, they would need to be discussed in executive session. The Committee indicated they had no further questions at this time.

Motion: Mr. Tom Manos moved to accept the Evaluation Committee's recommendation and forward to the full Board for approval. Mr. Rene Guillen seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

10. Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program

Motion: Mr. Tom Manos moved to go into executive session pursuant to A.R.S. § 38-431.03(A)(2) for the purpose of discussion or consideration of records exempt by law from public inspection. Mr. Rene Guillen seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

The Committee convened to Executive Session at 3:16 p.m.

Mr. Rene Guillen left the meeting at the conclusion of the Executive Session at 3:55 p.m.

The Committee reconvened to Public Session at 3:57 p.m.

11. Adjournment of the OALC

Mr. Clark Partridge adjourned the meeting at 3:58 p.m.

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM

Confidential Materials

Note: Executive
Session Minutes
have been provided
to the Committee and
not included in this
book

Agenda Item #3

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

**Thursday, August 20, 2020
2:30 p.m., Arizona Time**

A quorum of the Operations, Audit & Legislative Committee (OALC) of the Arizona State Retirement System (ASRS) met telephonically in public session.

Mr. Clark Partridge, Chair of the OALC, called the meeting to order at 9:00 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge, Chair
Mr. Tom Manos, Vice-chair
Mr. Rene Guillen (joined the meeting at 9:02 a.m.)

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

Mr. Clark Partridge, Chair, welcomed the attendees and thanked staff for their hard work and preparation for the meeting.

Ms. Melanie Alexander, ASRS Committee Administrator, provided all attendees with telephonic meeting guidelines.

2. Presentation, Discussion, and Appropriate Action Regarding 2020 Rulemaking Initiative Related to Compensation

Mr. Paul Matson, Director, turned the presentation directly over to Ms. Jessica Thomas, Government Relations Officer and Rules Writer. Ms. Thomas summarized the 2020 Regulatory Agenda identified rules that needed to be clarified due to the 2019 legislation that changed the definition of compensation. Those rules are being presented today. The rule changes clarify how employers remit contributions, how service is accrued, and in particular, to clarify what happens with an additional employer's compensation for members both prior to 2009 and post 2009. Ms. Thomas asked that the Committee consider approving the draft compensation rulemaking language be filed with the Secretary of State.

Ms. Thomas clarified for the Committee; the reason for the change in the compensation definition was to make it easier to understand for both the members and employers. She further indicated the former definition was complex; it was difficult for members and employers to understand what types of compensations should be included when remitting contributions.

Motion: Mr. Tom Manos moved approval of the rulemaking language as presented by staff regarding the issue of compensation and forwarding it on to the full Board. Mr. Rene Guillen seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

Please see amended motion after Agenda Item #4 below.

3. Presentation, Discussion, and Appropriate Action Regarding 2020 Rulemaking Initiative Related to Long-Term Disability (LTD)

Ms. Thomas stated this rulemaking is similar to the compensation rulemaking in that the 2020 Regulatory Agenda identified Article 3, related to LTD benefits that needed to be updated to indicate that someone could not receive any LTD benefits if they were already receiving 100% of their pre-disability compensation. The 2019 legislation clarified this; however, there were conflicting portions of that statute that indicated that someone could not receive more than 100% of their pre-disability compensation but then there was another provision that also said that the minimum benefit would be at least \$50. This rulemaking is to clarify that they will only get the minimum if they are not already at the maximum of 100% of their pre-disability compensation. Ms. Thomas asked that the Committee consider approving the draft LTD rulemaking language be filed with the Secretary of State.

Ms. Thomas opened it up to questions from the Committee; there were none.

Motion: Mr. Tom Manos moved approval of the rulemaking recommendation regarding the LTD program. Mr. Rene Guillen seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

4. Presentation, Discussion, and Appropriate Action Regarding the 2020 Regulatory Agenda to Include an Update on Rulemaking Initiatives

Ms. Thomas provided the Committee an update on the remaining three items listed on the 2020 Regulatory Agenda. The remaining items were as follows:

- Non-participating Employer Invoices – ASRS was seeking legislative changes earlier this year that affected this rule. This will be postponed until next year when legislative changes will be pursued again in 2021.

- Alternate Contribution Rate Credit – This is related to a piece of legislation approved last year. Staff thought it might be necessary to create rules related to when an employer takes those credits; however, it has been decided not to pursue this at this time because the ASRS does not monitor those credits; it is incumbent on the employer.
- Liability Invoices – This has been postponed pending current issues with employers. Staff believes it is prudent to postpone this rulemaking until the ASRS has resolved pending issues before determining how the ASRS should establish rules and requirements for this invoicing process.
- Five-Year Review Report – This report was completed and received approval from the Governor’s Regulatory Review Council. Currently, the ASRS is seeking approval from the Governor’s Office to proceed with expedited rulemaking to make the changes identified in the report.

2. Presentation, Discussion, and Appropriate Action Regarding 2020 Rulemaking Initiative Related to Compensation

Prior to moving on to Agenda Item No. 5, Ms. Cassie Adams, Assistant Attorney General, suggested the motion for Agenda Item No. 2, be clarified for the record as it does not need to be forwarded to the full Board for approval, it needs to go to the Secretary of State. Mr. Clark Partridge called for an amended motion.

Motion: Mr. Tom Manos amended his motion for Agenda Item # 2 to reflect that the rulemaking will not be going to the full Board, but rather will be going to the Secretary of State. Mr. Rene Guillen seconded the amended motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – approved
Mr. Rene Guillen – approved

5. Call to the Public

No members of the public requested to speak.

6. Requests for Future Agenda Items

None were requested.

7. The next regular public OALC meeting is scheduled for Wednesday, October 14, 2020, at 2:30 p.m.

Mr. Clark Partridge noted the next OALC meeting is scheduled for Wednesday, October 14, 2020 at 2:30 p.m.

8. Adjournment of the OALC

Mr. Clark Partridge adjourned the meeting at 9:16 a.m.

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM

DRAFT

Agenda Item #4

MEMORANDUM

TO: Mr. Clark Partridge, Chair, Arizona State Retirement System (ASRS) Operations, Audit and Legislative Committee (OALC)

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Sara Orozco, Manager of Strategic Planning and Communications
Ms. Katie Daigneault, Strategic Planner and Survey Administrator

DATE: September 30, 2020

RE: **Agenda Item #4:** Presentation, Discussion, and Appropriate Action Regarding: The results of the 2020 Employer and Retiree Surveys, and the Survey Plan and Priorities for 2021

Purpose

To review the ASRS Employer and Retiree Survey Data.

Recommendation

Informational only, no action required

Background

The ASRS utilizes a robust survey program with a multipronged approach. The survey data collected is used to assess satisfaction, understanding, and agency perception throughout different channels of the agency's internal and external business. The results are tied to and help inform the agency's vision, mission, priorities, and goals.

In general, the ASRS conducts three types of surveys:

- **Perception Surveys:** Large groups, done once a year to gather general member impressions.
- **Transaction Surveys:** Small groups of members who recently interacted with the ASRS.
- **Ad Hoc surveys:** One-time surveys to gather information on a particular issue of interest.

In late 2019, the ASRS determined that it had reached a point where it had enough emails in its member database to transition its survey program from SNAP, a smaller, scanner/electronic survey platform, to Qualtrics, a more robust, electronic-only survey platform.

In 2020, our priority has been to:

- Convert remaining paper surveys to electronic and transition all existing surveys into Qualtrics.
- Learn the Qualtrics tool and its features by building online dashboards to gather survey data.
- Add a perception survey for Active and Inactive members.

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September 30, 2020

- Implement Net Promoter Scores for each of the four member perception surveys.
- Begin the process of reviewing all transaction-based surveys with an eye toward implementing best practices identified through the CEM benchmarking survey where practicable.

In 2021, we plan to:

- Complete the review and refresh of all transaction-based surveys, incorporating best practices along the way.
- Ensure that each survey has a consistent, repeatable process that reviews and takes action on issues as they are identified.
- Investigate, and implement, where possible, an Application Programming Interface (API) exchange to make the survey process more automated.

A copy of our survey plan for the remainder of 2020 and 2021 is attached **(Attachment A)**.

2020 Retiree Survey Results

The retiree survey was conducted in the second quarter of 2020. This survey is conducted annually. Here are our key takeaways from the results:

1. The most satisfied retirees are the most prepared retirees through their utilization of agency provided tools in the form of Member Education, Online tools, and resources.
2. Pre-retirement education continues to be the key to members feeling confident in their retirement and whether or not they are considered a promoter or a detractor of the agency.

Next Steps: Because there is a strong link between pre-retirement education and satisfaction in retirement, the ASRS should enhance how and when we provide pre-retirement education on:

- Permanent Benefit Increase (PBI)/Cost Of Living Adjustment (COLA)
- Partial Lump Sum Implications
- Health Insurance cost and coverage for Pre-Medicare.

A summary of the results, and our conclusions is attached. **(Attachment B)**

2020 Employer Survey Results

The employer survey was conducted in January 2020. This survey was last conducted in early 2018 and will now be conducted annually. Here are our key takeaways from the results:

1. Employers follow an interesting path in their levels of engagement, satisfaction, and understanding of the ASRS. Staff with less than one year of employment are highly satisfied and are confident in their knowledge of the ASRS, key statutes, rules, and processes. At the end of the first year, up through the fifth year, satisfaction and engagement drop off, as employers realize how much they need to learn. Satisfaction and engagement rise again as employers remain in their role, gradually rising again as the number of years in the role increase.
2. There is a strong link between the level of education on key ASRS statutes, rules,

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September 30, 2020

processes and support an employer receives and their satisfaction and engagement with the ASRS.

Next Steps: Although employers are generally satisfied with the ASRS and its service, the results indicate we could do better in targeting our information gathering, training, education, and communication to where it is most needed, specifically:

- Improve the survey instrument to customize questions by specific employer role.
- Create Targeted Education and training for Employer Roles based on function.
- More targeted communication in the areas of:
 - The value of ASRS membership.
 - Key ASRS statutes, rules, and processes that employers play a part in.
- Develop and Implement Employer Secure Message Satisfaction Survey with feedback loop (similar to what has been implemented with members).
- Develop a Quality Assurance Program for Employer Secure Messaging.

A summary of the results, and our conclusions is attached. **(Attachment C)**

Attachment A



Survey Plan: 2020/2021

Summary:

The purchase of Qualtrics in December 2019 will help Strategic Planning migrate all surveys to an electronic format and facilitate a timelier and more systematic tabulation process that includes action planning where needed.

Distribution Methods:

Direct Email from:
 -Qualtrics Survey Tool
 -Emma Email Tool
 Text or SMS Message
 QR Code
 Link Received During Transaction

Key Changes

New Surveys:

1. Active Member Survey
2. Inactive Member Survey

Net Promoter Survey (NPS)
Question for:

- Active Member Survey
- Inactive Member Survey
- Retired Member Survey
- Employer Survey

The NPS Score will be reported for all surveys individually and in an aggregate form.

Priorities

Develop and Implement:

- Review all Transaction Surveys
- Change survey frequency, where possible, to match CEM Recommendations
- Ensure that each survey has a consistent, repeatable process that reviews and takes action on issues as they are identified
- Work with Qualtrics and TSD to utilize API functionality of the survey tool
- Sentiment Analysis
- Key Driver Analysis

2019/2020 Overview

- In December 2019, ASRS migrated all surveys from SNAP to Qualtrics.
- The three outstanding paper questionnaires have since transitioned to electronic.
- Re-engineering of transaction-based surveys has begun.
- In 2019, over 6,200 members completed a transaction-based survey.
- Participation in employee engagement survey was high: 87% in 2019, 91% in 2020.
- Transition to work from home due to Covid-19 has not harmed survey response rates or member/employer satisfaction.

Strengths

- The new platform is more robust
- A high rate of email means we no longer need to rely on paper surveys
- Management finds value in surveys

Opportunities

- Re-energize transaction surveys
- Optimize frequency where possible to align with CEM recommendations
- Optimize the feedback loop

Transaction-Based Surveys

The ASRS conducts transaction-based surveys at the point of the transaction, within 24 hours - 2 weeks and Quarterly.

Point of Transaction:

- ASRS Internal Helpdesk
- Member Advisory Center (MAC)
- Member Secure Messaging (MSM)
- Member Educational Meetings
 - Route 3
 - Route 4
 - Webinars

24 hours – 2 weeks from Transaction*

- One-on-One Meetings
- Employer Educational Meetings
 - Employer Conference
 - Employer Basics

*CEM recommendation

Quarterly:

- Service Purchase
- Refunds
- New Retirements
- Benefit Estimate
- Survivor Benefits

Perception Based Surveys

The ASRS plans to conduct the following surveys each year to assess stakeholder perception:

Annual Stakeholder Surveys

- Retired Members Survey
- Active Member Survey
- Inactive Member Survey
- Employer Survey

Annual Health/Dental Surveys

- Health Insurance (enrolled in ASRS)
- Health Insurance (not enrolled in ASRS)
- Dental Insurance (enrolled in ASRS)
- Dental Insurance (not enrolled in ASRS)

Internal Surveys

- Internal Services Survey (twice annual)
- EE Engagement Survey (*administered by ADOA*)

Ad Hoc Surveys

The ASRS is available to conduct ad hoc surveys of internal or external customers in support of the needs of the divisions/program areas.

So far, 11 ad hoc surveys have been administered in 2020. We expect 10 - 15 per year.

Survey Calendar: 2020

Quarter 1	Quarter 2	Quarter 3	Quarter 4
<ul style="list-style-type: none"> ▪ Employers 	<ul style="list-style-type: none"> ▪ Internal Services 	<ul style="list-style-type: none"> ▪ Retirees ▪ Health Ins. ▪ EE Engagement 	<ul style="list-style-type: none"> ▪ Inactive Members ▪ Active Members ▪ Internal Services
Responses: 1,506	Responses: 1,704	Responses: 6,156	Estimated: 3,500

Proposed Survey Calendar: 2021

Quarter 1	Quarter 2	Quarter 3	Quarter 4
<ul style="list-style-type: none"> ▪ Retirees ▪ Health Ins. ▪ HI not enrolled 	<ul style="list-style-type: none"> ▪ Dental Ins. ▪ EE Engagement ▪ Internal Services 	<ul style="list-style-type: none"> ▪ Employers ▪ Active Members 	<ul style="list-style-type: none"> ▪ Inactive Members ▪ Internal Services
Estimated: 6,500	Estimated: 2,500	Estimated: 2,500	Estimated: 3,500

Attachment B



2020 Retiree Survey

Overview

Date: 2nd Quarter 2020

Responses: 1,462

Confidence: 99%

Margin of Error: ± 3%

Summary

Overall, ASRS retirees are satisfied to highly satisfied.

Areas of positive gain:

- ASRS provided information that was easy to understand
- ASRS acts in my best interest
- ASRS acts ethically

Opportunities for improvement:

- Satisfaction with the ASRS overall
- Satisfaction with the website
- Customer service that ASRS provides

We received 901 comments from our retirees. Most common mentions:

Health Insurance: 200

Education: 146

Benefits: 110

Permanent Benefit Inc.: 69

Key Finding

Education is the key to members feeling confident in their retirement and whether they are considered a promoter or a detractor of the agency.

There is a strong link between pre-retirement education and satisfaction in retirement. ASRS should use this data to enhance how and when we provide pre-retirement education on:

1. PBI/COLA
2. Partial Lump Sum Implications
3. Health Insurance cost and coverage for Pre-Medicare.

Strengths

- *The most satisfied retirees did the most planning and took advantage of the education provided by the ASRS.*
- 93% - Agreed that ASRS contributions were worth the investment in their lifetime retirement benefit.
- 94% - Felt their retirement was secure with the ASRS. *(Strategic Plan 1.3.3.4)*
- 93% - Thought the ASRS provided information that was easy to understand.
- 93% - Were confident they would have enough money to live comfortably throughout retirement
- 91% - Agreed that the ASRS acts in their best interest. *(Strategic Plan 1.3.3.3)*
- 89% - Felt that the ASRS acts ethically. *(Strategic Plan 1.3.3.5)*
- The ASRS Net Promoter score from Retirees for 2020 is 59.5.

Opportunities for Improvement

- *The least satisfied retirees had less than 10 years of service **and** had been retired the longest (more than 5 years). The NPS score is 31 for this group.*
- Retiree satisfaction with the ASRS overall is 88%. Although this number is very positive, it is slightly down from 94% positive in 2019. *(Strategic Plan 1.3.1.3)*
- Retiree satisfaction with the website is up to 87%, with 6% rating the website poorly. This score, while positive, is also down from 98% in 2019.
- Customer service that ASRS provides was rated positively by 85% of retirees with 8% rating negatively. This score is down from 99% positive in 2019.

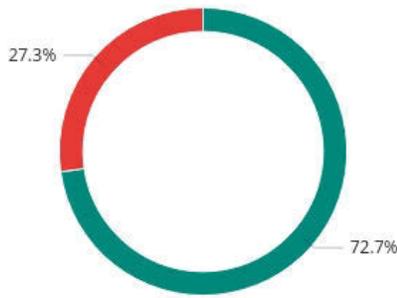
Net Promoter Score

- Net Promoter Score is a number from -100 to 100.
- Scores higher than 0 are considered to be good, and scores above 50 are considered to be excellent. **The ASRS has an NPS score of 59.5!**
Companies ranked similarly: Amazon (62), Apple and Sony (61), and John Deere (54)
- What is the NPS? The Net Promoter Score characterizes survey respondents into 1 of 3 categories (promoters, detractors, passive) based on their response to the question "On a scale of 0-10, how likely are you to recommend/promote ASRS as a great organization".
- **Promoters**, those responding 9 or 10, are the most engaged and most likely to speak positively of ASRS openly.
- **Detractors**, those responding with a 0 to 6, are most likely to speak poorly of ASRS
- **Passive**, responding with a 7 to 8, are either slightly satisfied or are indifferent about ASRS, and are not likely to share their opinion about the ASRS without being asked.
- The Net Promoter Score is calculated by subtracting the percentage of customers who are Detractors from the percentage of customers who are Promoters.

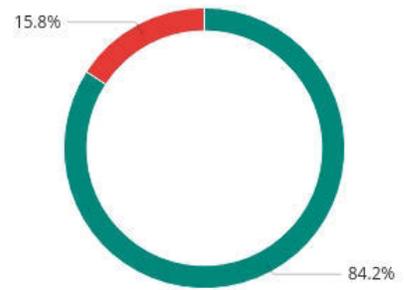
% (Promoters) - % (Detractors) = NPS

ASRS Retirees in 2020: **69% Promoters**, **9% Detractors**, and **22% Passive**

Have you visited the ASRS Public website (azasrs.gov) in the past 12 months? 1,409 Responses



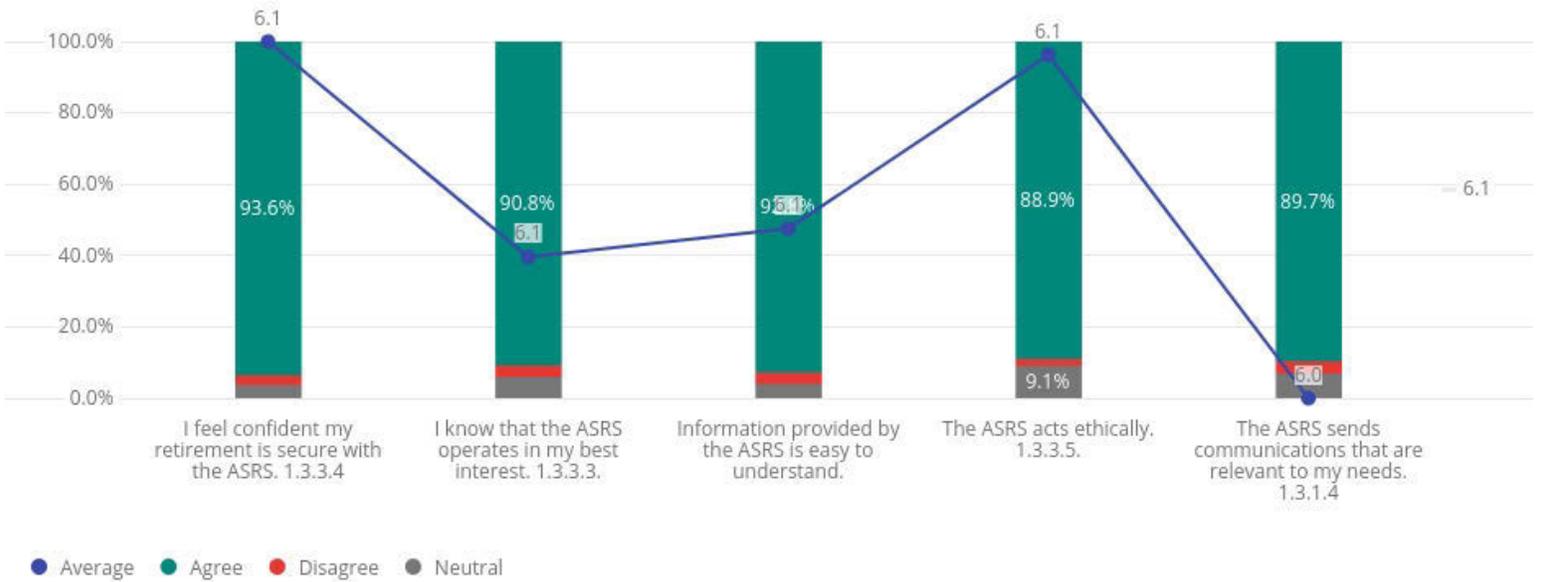
Have you registered and logged into your secure account on the ASRS website? 1,358 Responses



● Yes ● No

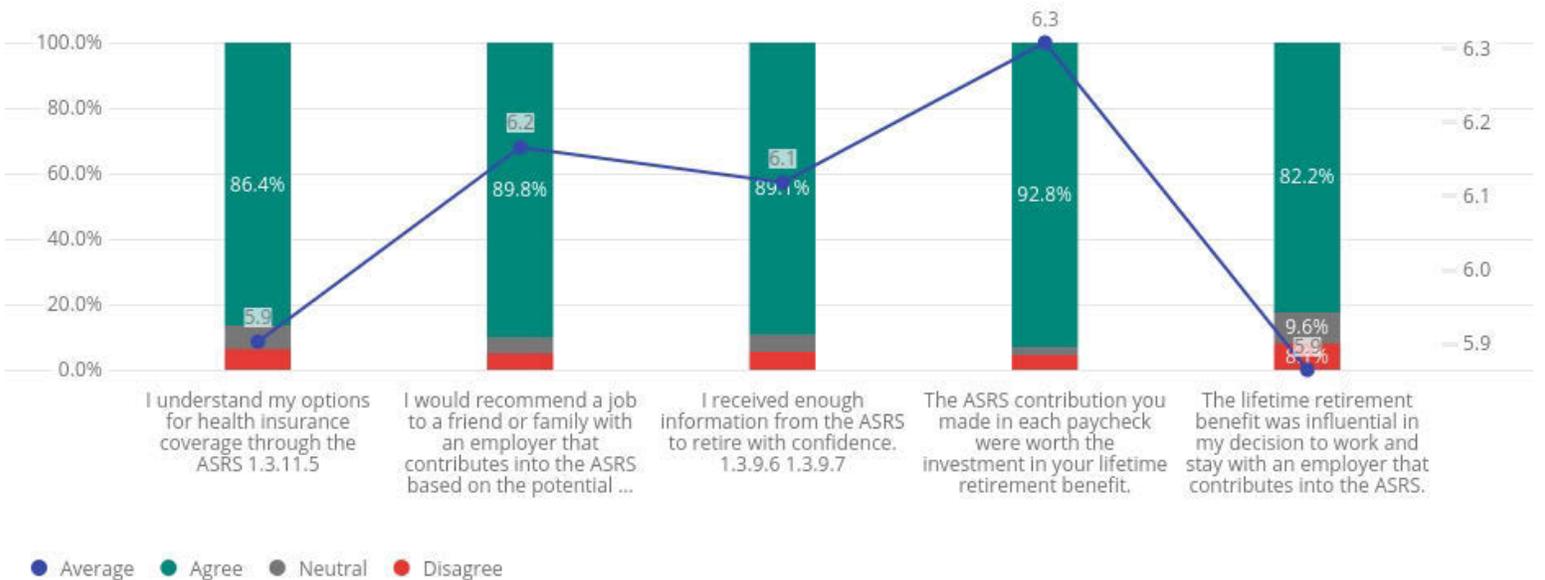
● Yes ● No

Respondent's level of agreement with each of the following statements : 1,391 Responses



● Average ● Agree ● Disagree ● Neutral

Respondent's level of agreement with each of the following statements : 1,415 Responses



● Average ● Agree ● Neutral ● Disagree

Attachment C



2020 Employer Survey

Overview

Date: 1st Quarter 2020
Responses: 353
Confidence: 95%
Margin of Error: ±4%

Who Responded

- K-12 Public: 49%
 - K-12 Charter: 7%
 - Higher Education: 4%
 - State Government: 15%
 - Cities & Towns: 12%
 - Counties: 8%
 - Other: 5%
-
- 47% are in Maricopa County
 - 12% are in Pima County
 - 41% are in remaining counties

Summary

Overall, employers remain satisfied with the service that ASRS provides.

The majority of key performance indicators are meeting or exceeding the set performance targets or are within an acceptable risk tolerance.

The employer feedback has provided valuable data that can be used to move our service from good to great.

Key Finding

Engagement and satisfaction levels are highest for long-tenured employer reps.

Most respondents, however, have only been in their role between 1 and 5 years.

The data suggests that communication targeted towards this group would increase engagement.

Strengths

- The ASRS Net Promoter Score (NPS) from employers for 2020 is **46.6** (Question: How do you rate the ASRS as an organization?).
- *Net Promoter Scores and Satisfaction is highest among respondents that have been in their role for more than 20 years (NPS 72.7).*
- 87% - Agree that ASRS sends communications relevant to their needs.
- 84% - Think the ASRS acts ethically.
- 86% - Satisfaction with secure messaging for employers.
- 84% - Satisfaction with the contribution process (Accounting/Payroll role).
- Most employers are aware of, and satisfied with the education and online tools available to them.

Opportunities for Improvement

- *Net Promoter Scores and Satisfaction is the lowest amongst respondents that have been in their role for 1-5 years (NPS 38.3).*
- 76% - Agree that ASRS contributes to a total compensation package that helps their organization **retain** employees
- 72% - Agree that ASRS contributes to a total compensation package that helps their organization **attract new** employees.
- 67% - Agree that the contribution rate is affordable and manageable for the benefit received.
- A high number (up to 40% for some items) expressed some level of unfamiliarity with ASRS statutes, rules, and processes. In addition, between 10 and 20 percent of respondents reported being unaware of one or more of the online tools and resources available to them.

Recommendation

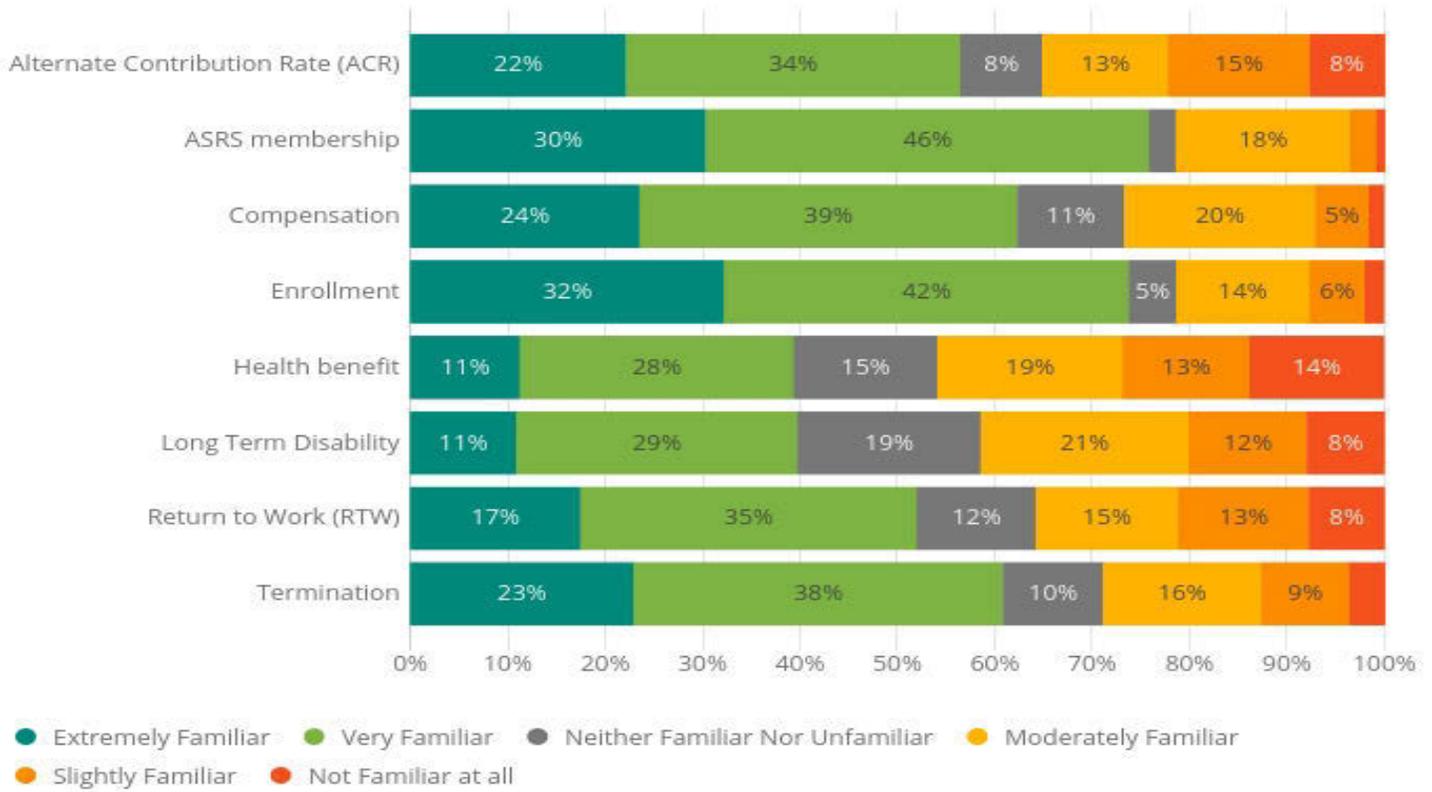
Employers follow an interesting path in their levels of engagement, satisfaction, and understanding of the ASRS. Employers with less than one year of employment are highly satisfied and are confident in their knowledge of the ASRS. In years 1-5, the number drops off, gradually rising as their years in the role increase.

This information shows that there is a strong link between the level of education and support an employer receives and their satisfaction with the ASRS.

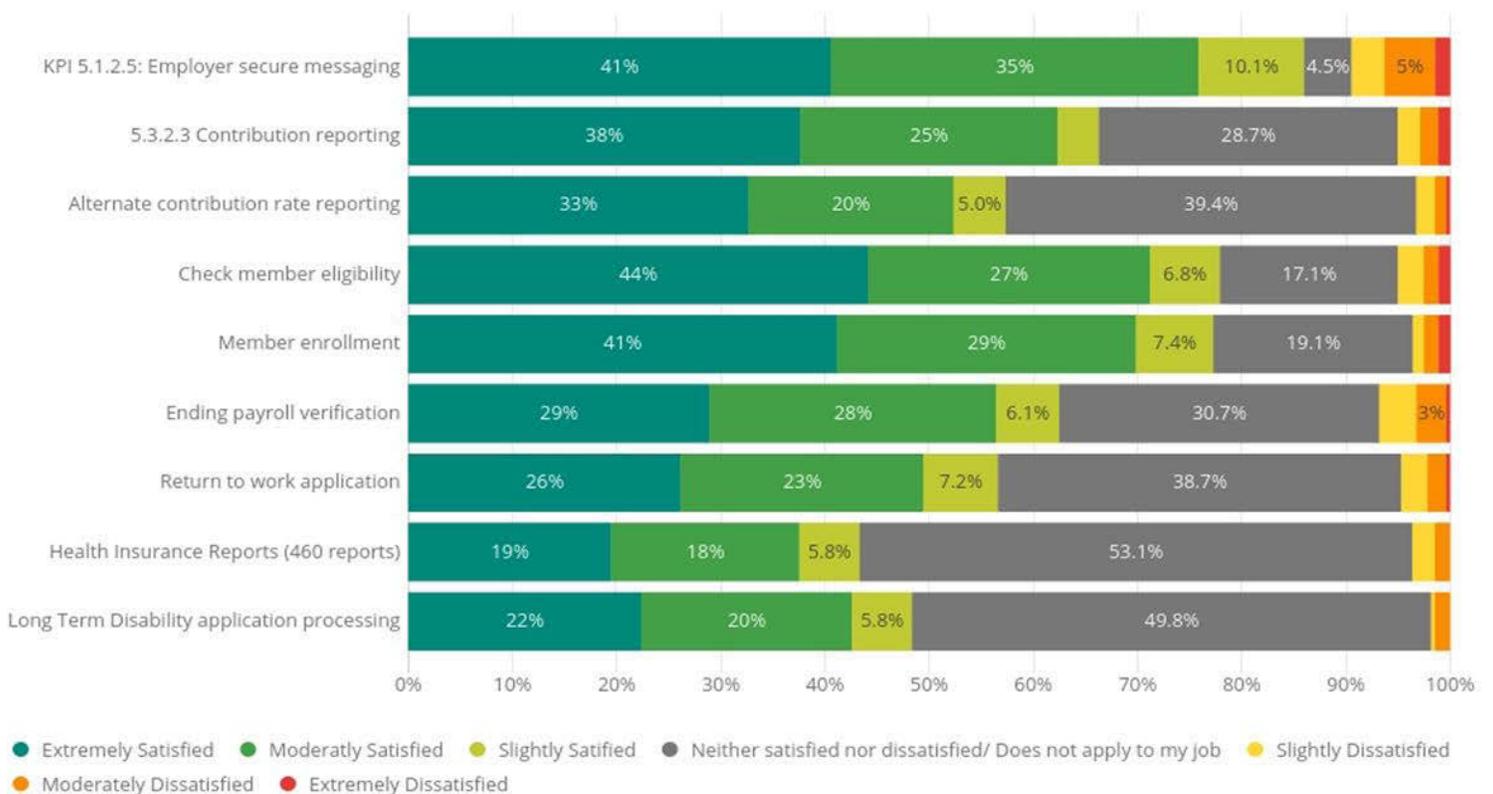
Although employers are generally satisfied with ASRS and its service, the results indicate we could do better in targeting our information gathering, training, education, and communication to where it is most needed, specifically:

- Improve the survey instrument to customize questions by specific employer role.
- Create targeted education and training for employer roles based on function.
- More targeted communication in the areas of:
 - The value of ASRS membership.
 - Key ASRS statutes, rules, and processes that employers play a part in.
- Develop and implement employer secure message satisfaction survey with feedback loop (similar to what has been implemented with members).
- Develop a Quality Assurance Program for employer secure messaging.

Granular: Familiar with Statutes, rules, and processes 267 Responses



Granular: Satisfaction with Online Tools 286 Responses



Agenda Item #5

MEMORANDUM

TO: Mr. Clark Partridge, Chair, Arizona State Retirement System (ASRS) Operations, Audit and Legislative Committee (OALC)

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Jessica Thomas, Government Relations Officer

DATE: September 21, 2020

RE: **AGENDA ITEM NO. 5:** Presentation, Discussion and Appropriate Action Regarding the 2021 ASRS Legislative Initiatives

Purpose:

Discuss potential ASRS initiatives for the 2021 legislative session.

Recommendation:

Action item: In order to ensure compliance with open meeting law, staff will provide its recommendation for Committee consideration during the presentation.

Background:

During the summer, the Government Relations Officer received legislative suggestions from ASRS staff concerning plan design issues; potential plan inefficiencies, inconsistencies, and inequities; administrative concerns; and others.

The Government Relations Officer researched and discussed each suggestion in conjunction with Executive Management and other internal staff accordingly. Staff is seeking a recommendation to move the 2021 ASRS Legislative Agenda to the full Board for approval.

Attachment: 2021 Legislative Agenda
A.R.S. §§ 38-782 and 38-783 Redlined Version
A.R.S. § 38-738 Redlined Version
A.R.S. § 38-775 Redlined Version
A.R.S. § 38-751 Redlined Version
A.R.S. § 38-748 Redlined Version

Legislative Agenda

2021 Legislative Agenda

1. Amend A.R.S. §§ 38-782(A) and 38-783(F) to indicate how the ASRS may fund a self-insurance program by utilizing the HBS fund for reserves as needed.
 - a. While A.R.S. § 38-782(A) states that the ASRS may establish a self-insurance program with a separate account, it is unclear how that account may be funded.
 - b. Establishing a self-insurance program is expected to decrease the cost of health insurance to retirees.
2. Amend A.R.S. § 38-738 to indicate that the Employer must request a credit and return the employee portion to the employee. Also, amend the statute to indicate that a CNW cannot be completed after death of the member.
 - a. The employee is receiving a reduced benefit based on the returned contributions, so the Employer should be required to return the member portion to the employee.
 - b. CNW is intended to ensure the member receives the appropriate retirement benefit and allowing a CNW after death of the member does not affect the member's retirement benefits.
3. Amend A.R.S. § 38-775 to update language to reflect changes in federal law regarding the age requirement for Required Minimum Distributions (RMD) and to indicate that the ASRS will treat non-retired members who die after the federally mandated Required Minimum Distribution (RMD) date as if they had retired with a straight life annuity on their RMD and will distribute survivor benefits accordingly. Also update this statute and A.R.S. § 38-797.07 to clarify that the RMD provisions take precedence over Article 2.1 (LTD) and a member may receive both LTD and RMD.
 - a. This would simplify how survivor benefits are distributed in this situation, resulting in more efficient administration.
 - b. It would treat all members similarly.
 - c. This maintains compliance with federal law.
4. Amend A.R.S. § 38-751 to remove (a) the threshold for when a reduction in contributing employees results in an Employer being deemed as no longer participating in the ASRS; and (b) the prohibition of allowing an Employer to enroll new members after the Employer is deemed non-participating.
 - a. This would remove language that is unclear and does not achieve its intended purpose of covering the payment of the unfunded actuarial accrued liability related to the outsourced positions and which may have unintended consequences.
 - b. This would remove language that is not beneficial to the ASRS, the employer, or future employees.
5. Amend A.R.S. § 38-748(A) to replace "legally obligated to" with "shall."
 - a. This will remove unclear language while still maintaining the agency's discretion in determining whether benefits shall be provided to a member based on ineligible compensation.
 - b. This allows the agency to charge an employer an unfunded liability amount resulting from the ASRS providing benefits to a member based on ineligible contributions.

38-782 & 38-783

38-782. Group health and accident coverage for retired public employees and elected officials and their dependents; definition

A. The board shall establish group health and accident coverage for eligible retired, surviving and members with a disability and their dependents. The board may establish a self-insurance program for the purposes of this subsection if the board determines that self-insuring would be less expensive than and at least as effective as a fully insured plan, while considering the risks and costs. If the board establishes a self-insurance program, the board shall provide that the self-insurance program include all health coverage benefits that are required pursuant to title 20. ASRS shall establish a separate account for any self-insurance program established pursuant to this section in an amount determined appropriate by ASRS. ASRS shall not use or divert any part of the corpus or income of the account for any purpose other than **THE PROVISION OF BENEFITS AND COSTS FOR ADMINISTERING A SELF-INSURANCE PROGRAM UNDER THIS SECTION OR SECTION 38-783**, ~~to administer the self-insurance program~~ unless the board determines that a self-insurance program should no longer be offered. If a self-insurance program is no longer offered, monies in the account shall be ~~transferred to another account of ASRS as determined by ASRS.~~ **USED TO PAY ANY REMAINING BENEFITS OR COSTS FOR ADMINISTERING A PROGRAM UNDER THIS SECTION OR SECTION 38-783. IF THE LIABILITIES OF ASRS TO PROVIDE THE BENEFITS DESCRIBED IN THIS SECTION AND SECTION 38-783 ARE SATISFIED, THE BOARD SHALL RETURN ANY AMOUNT REMAINING IN THE ACCOUNT TO EMPLOYERS.** If an insured retired or member with a disability dies before the insured member's dependent beneficiary or an insured surviving dependent, the dependent beneficiary or insured surviving dependent is entitled to coverage at group rates if the dependent beneficiary or surviving dependent elects to continue in the coverage within six months of the insured member's death and the dependent beneficiary or surviving dependent agrees to pay the cost of the premium for group health and accident insurance. On notification of the insured member's death, the board shall immediately notify a dependent beneficiary or an insured surviving dependent of the provisions of this section.

B. Retired members of the public safety personnel retirement system, the elected officials' retirement plan, the elected officials' defined contribution retirement system established pursuant to article 3.1 of this chapter, the corrections officer retirement plan or the optional retirement programs authorized pursuant to sections 15-1451 and 15-1628 and their dependents who are receiving benefits from the public safety personnel retirement system, the elected officials' retirement plan, the elected officials' defined contribution retirement system established pursuant to article 3.1 of this chapter, the corrections officer retirement plan or the optional retirement programs authorized pursuant to sections 15-1451 and 15-1628 and who are not covered by section 38-651.01 may participate in group health and accident coverage provided pursuant to this section. On the death of an insured member of the public safety personnel retirement system, the elected officials' retirement plan, the elected officials' defined contribution retirement system established pursuant to article 3.1 of this chapter, the corrections officer retirement plan or the optional retirement programs authorized pursuant to sections 15-1451 and 15-1628, the insured surviving dependent is entitled to coverage at group rates. Except as provided in subsection H of this section, the surviving dependent shall be charged amounts that are sufficient to pay for the premium and administrative expense of providing the coverage.

C. The board may enter into agreements with retired, surviving and members with a disability of ASRS and retired members of the elected officials' defined contribution retirement system established pursuant to article 3.1 of this chapter who elect to obtain the coverage provided pursuant to subsection A of this section. Those agreements may include provisions for the deduction from the retirement benefits of the members who elect to obtain the coverage of amounts sufficient to pay for the premium not covered under retirement benefits and the administrative expense of providing the coverage.

D. The board of trustees of the public safety personnel retirement system may enter into agreements with retired members of the public safety personnel retirement system, the elected officials' retirement plan, the corrections officer retirement plan and their dependents who elect to obtain the coverage provided pursuant to this section. Those agreements may include provisions for the deduction from the retirement benefits of the members who elect to obtain the coverage of amounts sufficient to pay for the premium not covered under their retirement benefits and the administrative expense of providing the coverage.

E. The board may enter into agreements with retired members of the optional retirement programs authorized pursuant to sections 15-1451 and 15-1628 and their dependents who elect to obtain the coverage provided pursuant to this section. Those agreements may include provisions for the payment of amounts sufficient to pay for the premium and administrative expense of providing the coverage.

F. If an insured member receiving long-term disability benefits pursuant to article 2.1 of this chapter becomes ineligible for the long-term disability benefits, the member and the covered dependents of the member may continue to participate in the group health and accident coverage provided pursuant to this section subject to the following conditions:

1. Participation in the coverage is limited to twelve months from the date the member ceases eligibility for benefits under article 2.1 of this chapter or the member commences employment, whichever occurs first.
2. The member shall pay the full premium cost of the coverage selected, and the member is not eligible for benefits pursuant to section 38-783.
3. If a member who participates in the coverage dies during the twelve month period provided by this subsection, covered dependents of the member may continue coverage after the death of the member through the end of the twelve month period. Covered dependents of the member who continue coverage pursuant to this paragraph shall pay the full premium cost of the coverage selected and are not eligible for benefits pursuant to section 38-783.

G. Retired, surviving or members with a disability who are not eligible for medicare, who live in this state, who enroll in a qualifying health maintenance organization under this section and who reside outside the area of a qualifying health maintenance organization shall be offered the option of enrolling with a qualified health maintenance organization offered through their provider under the same premiums as if they lived within the area boundaries of the qualified health maintenance organization provided that:

1. All medical services are rendered and received at an office designated by the qualifying health maintenance organization or at a facility referred by the health maintenance organization.
2. All nonemergency or nonurgent travel, ambulatory and other expenses from the residence area of the member to the designated office of the qualifying health maintenance organization or the facility referred by the health maintenance organization are the responsibility of and at the expense of the member.
3. All emergency or urgent travel, ambulatory and other expenses from the residence area of the member to the designated office of the qualifying health maintenance organization or the facility referred by the health maintenance organization shall be paid pursuant to any agreement between

the health maintenance organization and the member living outside the area of the qualifying health maintenance organization.

H. Public monies shall not be spent to pay all or any part of the insurance premium pursuant to this section except for monies authorized to be paid for any insured from the retirement plan from which the insured is receiving benefits.

I. A retired member of the elected officials' defined contribution retirement system established pursuant to article 3.1 of this chapter may elect to obtain the coverage provided pursuant to subsection A of this section, but shall pay the premium for the coverage selected and is not eligible for benefits pursuant to section 38-783 or 38-817.

J. For the purposes of this section, "eligible retired, surviving and member with a disability" means a retired member who is receiving retirement benefits from ASRS, a designated beneficiary of a deceased member who is receiving a survivor benefit pursuant to section 38-762, subsection C as monthly income or a member with a disability who is receiving long-term disability benefits pursuant to section 38-651.03 or article 2.1 of this chapter, and who does not otherwise elect to obtain coverage under a group health and accident insurance plan or program.

38-783. Retired members; dependents; health insurance; premium payment; separate account; definitions

A. Subject to subsections G, H and I of this section, the board shall pay from ASRS assets part of the single coverage premium of any health and accident insurance for each retired member, contingent annuitant or member with a disability of ASRS if the member elects to participate in the coverage provided by ASRS or section 38-651.01 or elects to participate in a health and accident insurance program provided or administered by an employer or paid for, in whole or in part, by an employer to an insurer. A contingent annuitant must be receiving a monthly retirement benefit from ASRS in order to obtain any premium payment provided by this section. The board shall pay:

1. Up to one hundred fifty dollars per month for a member of ASRS who is not eligible for medicare if the retired member or member with a disability has ten or more years of credited service.
2. Up to one hundred dollars per month for each member of ASRS who is eligible for medicare if the retired member or member with a disability has ten or more years of credited service.

B. Subject to subsections G, H and I of this section, the board shall pay from ASRS assets part of the family coverage premium of any health and accident insurance for a retired member, contingent annuitant or member with a disability of ASRS who elects family coverage and who otherwise qualifies for payment pursuant to subsection A of this section. If a member of ASRS and the member's spouse are both either retired or have disabilities under ASRS and apply for family coverage, the member who elects family coverage is entitled to receive the payments under this section as if they were both applying under a single coverage premium unless the payment under this section for family coverage is greater. Payment under this subsection is in the following amounts:

1. Up to two hundred sixty dollars per month if the member of ASRS and one or more dependents are not eligible for medicare.
2. Up to one hundred seventy dollars per month if the member of ASRS and one or more dependents are eligible for medicare.

3. Up to two hundred fifteen dollars per month if either:

(a) The member of ASRS is not eligible for medicare and one or more dependents are eligible for medicare.

(b) The member of ASRS is eligible for medicare and one or more dependents are not eligible for medicare.

C. In addition each retired member, contingent annuitant or member with a disability of ASRS with less than ten years of credited service and a dependent of such a retired member, contingent annuitant or member with a disability who elects to participate in the coverage provided by ASRS or section 38-651.01 or who elects to participate in a health and accident insurance program provided or administered by an employer or paid for, in whole or in part, by an employer to an insurer is entitled to receive a proportion of the full benefit prescribed by subsection A or B of this section according to the following schedule:

1. 9.0 to 9.9 years of credited service, ninety percent.

2. 8.0 to 8.9 years of credited service, eighty percent.

3. 7.0 to 7.9 years of credited service, seventy percent.

4. 6.0 to 6.9 years of credited service, sixty percent.

5. 5.0 to 5.9 years of credited service, fifty percent.

6. Those with less than five years of credited service do not qualify for the benefit.

D. The board shall not pay more than the amount prescribed in this section for a member of ASRS.

E. Notwithstanding subsections A, B and C of this section, for a member who retires on or after August 2, 2012, the board shall not make a payment under this section to a retired member, contingent annuitant or member with a disability who is enrolled in an employer's active employee group health and accident insurance program either as the insured or as a dependent, except that if the retired member, contingent annuitant or member with a disability is enrolled as a dependent and the premium paid to the employer's active employee group health and accident insurance program is not subsidized by the employer, the retired member, contingent annuitant or member with a disability is entitled to receive the amount provided in subsection A of this section.

F. The board shall establish a separate account that consists of the benefits provided by this section. The board shall not use or divert any part of the corpus or income of the account for any purpose other than the provision of benefits [AND COSTS FOR ADMINISTERING A PROGRAM](#) under this section [OR A SELF-INSURANCE PROGRAM UNDER SECTION 38-782](#), unless the liabilities of ASRS to provide the benefits are satisfied. If the liabilities of ASRS to provide the benefits described in this section [AND SECTION 38-782](#) are satisfied, the board shall return any amount remaining in the account to the employer.

G. Payment of the benefits provided by this section is subject to the following conditions:

1. The payment of the benefits is subordinate to the payment of retirement benefits payable by ASRS.

2. The total of contributions for the benefits and actual contributions for life insurance protection, if any, shall not exceed twenty-five percent of the total actual employer and employee contributions to ASRS, less contributions to fund past service credits, after the day the account is established.

3. The board shall deposit the benefits provided by this section in the account.

4. The contributions by the employer to the account shall be reasonable and ascertainable.

H. A member who elects to receive a retirement benefit pursuant to section 38-760, subsection B, paragraph 1 may elect at the time of retirement an optional form of health and accident insurance premium benefit payment pursuant to this subsection as follows:

1. The optional premium benefit payment shall be an amount prescribed by subsection A, B or C of this section that is actuarially reduced to the retiring member for life. The amount of the optional premium benefit payment shall be the actuarial equivalent of the premium benefit payment to which the retired member would otherwise be entitled. The election in a manner prescribed by the board shall name the contingent annuitant and may be revoked at any time before the retiring member's effective date of retirement. At any time after benefits have commenced, the member may name a different contingent annuitant or rescind the election by written notice to the board as follows:

(a) If the retired member names a different contingent annuitant, the optional premium benefit payment shall be adjusted to the actuarial equivalent of the original premium benefit payment based on the age of the new contingent annuitant. The adjustment shall include all postretirement increases or decreases in amounts prescribed by subsection A, B or C of this section that are authorized by law after the retired member's date of retirement. Payment of this adjusted premium benefit payment shall continue under the provisions of the optional premium benefit payment previously elected by the retired member. A retired member cannot name a different contingent annuitant if the retired member has at any time rescinded the optional form of health and accident insurance premium benefit payment.

(b) If the retired member rescinds the election, the retired member shall thereafter receive the premium benefit payment that the retired member would otherwise be entitled to receive if the retired member had not elected the optional premium benefit payment, including all postretirement increases or decreases in amounts prescribed by subsection A, B or C of this section that are authorized by law after the member's date of retirement. The increased benefit payment shall continue during the remainder of the retired member's lifetime. The decision to rescind shall be irrevocable.

2. If, at the time of the retired member's death:

(a) The retired member was receiving a reduced premium benefit payment based on an amount prescribed in subsection B or C of this section and the contingent annuitant is eligible for family health and accident insurance coverage, the contingent annuitant is entitled to receive a premium benefit payment based on an amount prescribed in subsection B or C of this section times the reduction factor applied to the retired member's premium benefit payment times the joint and survivor option reduction factor elected by the retired member at the time of retirement pursuant to section 38-760, subsection B, paragraph 1.

(b) The retired member was receiving a reduced premium benefit payment based on an amount prescribed in subsection A or C of this section and the contingent annuitant is eligible for single health and accident insurance coverage, the contingent annuitant is entitled to receive a premium benefit payment based on an amount prescribed in subsection A or C of this section times the reduction factor applied to the retired member's premium benefit payment times the joint and survivor option reduction factor elected by the retired member at the time of retirement pursuant to section 38-760, subsection B, paragraph 1.

(c) The retired member was receiving a reduced premium benefit payment based on an amount prescribed in subsection B or C of this section and the contingent annuitant is not eligible for family health and accident insurance coverage, the contingent annuitant is entitled to receive a premium benefit payment based on an amount prescribed in subsection A or C of this section times the reduction factor applied to the retired member's premium benefit payment times the joint and survivor option reduction factor elected by the retired member at the time of retirement pursuant to section 38-760, subsection B, paragraph 1.

I. A member who elects to receive a retirement benefit pursuant to section 38-760, subsection B, paragraph 2 may elect at the time of retirement an optional form of health and accident insurance premium benefit payment pursuant to this subsection as follows:

1. The optional premium benefit payment shall be an amount prescribed by subsection A, B or C of this section that is actuarially reduced with payments for five, ten or fifteen years that are not dependent on the continued lifetime of the retired member but whose payments continue for the retired member's lifetime beyond the five, ten or fifteen year period. The election in a manner prescribed by the board shall name the contingent annuitant and may be revoked at any time before the retiring member's effective date of retirement. At any time after benefits have commenced, the member may name a different contingent annuitant or rescind the election by written notice to the board. If the retired member rescinds the election, the retired member shall thereafter receive the premium benefit payment that the retired member would otherwise be entitled to receive if the retired member had not elected the optional premium benefit payment, including all postretirement increases or decreases in amounts prescribed by subsection A, B or C of this section that are authorized by law after the member's date of retirement. The increased benefit payment shall continue during the remainder of the retired member's lifetime. The decision to rescind shall be irrevocable.

2. If, at the time of the retired member's death:

(a) The retired member was receiving a reduced premium benefit payment based on an amount prescribed in subsection B or C of this section and the contingent annuitant is eligible for family health and accident insurance coverage, the contingent annuitant is entitled to receive a premium benefit payment based on an amount prescribed in subsection B or C of this section times the period certain and life option reduction factor elected by the retired member at the time of retirement pursuant to section 38-760, subsection B, paragraph 2.

(b) The retired member was receiving a reduced premium benefit payment based on an amount prescribed in subsection A or C of this section and the contingent annuitant is eligible for single health and accident insurance coverage, the contingent annuitant is entitled to receive a premium benefit payment based on an amount prescribed in subsection A or C of this section times the period certain and life option reduction factor elected by the retired member at the time of retirement pursuant to section 38-760, subsection B, paragraph 2.

(c) The retired member was receiving a reduced premium benefit payment based on an amount prescribed in subsection B or C of this section and the contingent annuitant is not eligible for family health and accident insurance coverage, the contingent annuitant is entitled to receive a premium benefit payment based on an amount prescribed in subsection A or C of this section times the period certain and life option reduction factor elected by the retired member at the time of retirement pursuant to section 38-760, subsection B, paragraph 2.

J. If, at the time of retirement, a retiring member does not elect to receive a reduced premium benefit payment pursuant to subsection H or I of this section, the retired member's contingent annuitant is not eligible at any time for the optional premium benefit payment.

K. If a member who is eligible for benefits pursuant to this section forfeits the member's interest in the account before the termination of ASRS, an amount equal to the amount of the forfeiture shall be applied as soon as possible to reduce employer contributions to fund the benefits provided by this section.

L. A contingent annuitant is not eligible for any premium benefit payment if the contingent annuitant was not enrolled in an eligible health and accident insurance plan at the time of the retired member's death or if the contingent annuitant is not the dependent beneficiary or insured surviving dependent as provided in section 38-782.

M. For the purposes of this section:

1. "Account" means the separate account established pursuant to subsection F of this section.

2. "Credited service" includes prior service.

3. "Prior service" means service for this state or a political subdivision of this state before membership in the defined contribution program administered by ASRS.

4. "Subsidized" means a portion of the total premium is paid by the employer, but does not necessarily mean a plan in which the employer uses blended rates to determine the total premium.

38-738

Employer Credits

38-738. Adjustment and refund

A. If more than the correct amount of employer or member contributions is paid into ASRS by an employer through a mistake of fact, ASRS shall ~~return those contributions to the employer~~ PROVIDE THE EMPLOYER WITH AN EMPLOYER CREDIT AGAINST FUTURE CONTRIBUTIONS if the employer requests ~~return of the contributions through~~ an employer credit or, if the request is made within one year after the date of overpayment, by check on request of the employer. ASRS SHALL NOT PAY AN EMPLOYER EARNINGS ATTRIBUTABLE TO EXCESS CONTRIBUTIONS BUT SHALL REDUCE THE AMOUNT RETURNED TO AN EMPLOYER PURSUANT TO THIS SECTION BY THE AMOUNT OF LOSSES ATTRIBUTABLE TO THE EXCESS CONTRIBUTIONS. If more than the correct amount of employer or member contributions is paid into ASRS by an employer through a mistake of law, ASRS shall ~~return those contributions to the employer~~ PROVIDE THE EMPLOYER WITH AN EMPLOYER CREDIT AGAINST FUTURE CONTRIBUTIONS if the employer requests ~~return of the contributions through~~ an employer credit. UPON RECEIVING AN EMPLOYER CREDIT OR CHECK, THE EMPLOYER SHALL RETURN ANY MEMBER PORTION OF THE RETURNED CONTRIBUTIONS TO THE MEMBER.

B. If less than the correct amount of employer or member contributions is paid into ASRS by an employer, the following apply:

1. The member shall pay an amount that is equal to the amount that would have been paid in member contributions for the period in question. For active members, payments shall be made as provided in section 38-747. For members who are inactive, retired or on long-term disability, payments shall be made using after-tax income and a personal check, cashier's check or money order. If the member does not make the payment within ninety days after being notified by ASRS that the employer has paid all amounts due from the employer, the unpaid amount accrues interest until the amount is paid in full. The member is responsible for payment of the unpaid amount and interest. The interest rate is the interest rate assumption that is approved by the board for actuarial equivalency for the period in question to the date payment is received.

2. If the member contributions to ASRS made pursuant to this subsection exceed the limits prescribed in section 38-747, subsection E when taking into account other annual additions of the member for the limitation year, the amount to be paid by the member shall be adjusted as provided in section 38-747. For the purposes of this paragraph, "limitation year" has the same meaning prescribed in section 38-769.

3. The employer shall pay to ASRS an amount equal to the amount that would have been paid in employer contributions for the period in question together with accumulated interest that would have accrued on both the employer and member contributions due. If the employer does not remit full payment of all employer contributions and all interest due within ninety days after being notified by ASRS of the amount due, the unpaid amount accrues interest until the amount is paid in full. The interest rate is the interest rate assumption that is approved by the board for actuarial equivalency for the period in question to the date payment is received.

4. On satisfaction of the requirements of this subsection, the member's salary history on the records of ASRS shall be adjusted and any additional service credits acquired by the member shall be reinstated.

5. If the member retires before all contributions are made pursuant to this subsection, the member's benefits shall be calculated only based on the contributions actually made.

6. Annual additions shall be determined as provided in section 38-747, subsection O.

7. The initiator of the request for correction of salary history and service credits on records of ASRS is responsible for providing credible evidence of past employment and compensation to ASRS in a form or forms that would lead a reasonable person to conclude that a period of employment occurred under circumstances that made the employee eligible for membership in ASRS during that period. A determination of eligibility by ASRS may be appealed to the ASRS board in a manner prescribed by the board.

8. A member who previously received a return of contributions pursuant to section 38-740 may receive an adjustment of employer contributions or service credits pursuant to this section only for qualifying employment and compensation that occurred after the member's most recent return of contributions pursuant to section 38-740.

C. Subsection B of this section applies to eligible verified service that occurred less than or equal to fifteen years before the date the initiator of the request for correction of salary history and service credits on the records of ASRS provides ASRS with credible evidence in writing that less than the correct amount of contributions was paid into ASRS or ASRS otherwise determines that less than the correct amount of contributions was made.

D. Eligible verified service that is more than fifteen years before the date the initiator of the request for correction of salary history and service credits on the records of ASRS provides ASRS with credible evidence in writing that less than the correct amount of contributions was paid into ASRS or ASRS otherwise determines that less than the correct amount of contributions was made is considered public service credit. The member may purchase this service pursuant to section 38-743.

E. Notwithstanding any other law, an employer may correct a contributions error pursuant to subsection B of this section by making payment adjustments through the employer's payroll reporting for the contributions that were not submitted if both of the following apply:

1. The adjustment is made within the same fiscal year that the contributions were due to ASRS.
2. The employer obtains written consent from the employee to make the adjustment to the employee's paycheck.

F. NOTWITHSTANDING ANY OTHER LAW, IF LESS THAN THE CORRECT AMOUNT OF EMPLOYER OR MEMBER CONTRIBUTIONS IS PAID INTO ASRS BY AN EMPLOYER, THE CORRECT AMOUNT OF MEMBER CONTRIBUTIONS CANNOT BE PAID TO ASRS AFTER THE DEATH OF THE MEMBER.

38-775

RMD

38-775. Required distributions; definitions

A. This section applies for purposes of determining required minimum distributions for calendar years beginning on and after January 1, 2006. In applying the requirements of this section, the following operational provisions govern:

1. Except as provided in the following sentence, the requirements of this section take precedence over any inconsistent provisions of this article **AND ARTICLE 2.1**. The rules of this section shall not restrict any form, calculation, adjustment or payment of benefit provided under this article in effect on April 17, 2002, if the form, calculation, adjustment or payment of benefit satisfied section 401(a)(9) of the internal revenue code based on a reasonable and good faith interpretation of that section.

2. All distributions required under this section shall be determined and made pursuant to section 401(a)(9) of the internal revenue code and the regulations that are issued under that section by the United States secretary of the treasury.

3. Notwithstanding this section, other than paragraph 2 of this subsection, distributions may be made under a designation made before January 1, 1984, pursuant to section 242(b)(2) of the tax equity and fiscal responsibility act of 1982 (P.L. 97-248) and the provisions of this article that relate to that section.

B. The member's entire interest shall be distributed, or begin to be distributed, to the member no later than the member's required beginning date.

C. If the member dies before distributions begin, the member's entire interest shall be distributed, or begin to be distributed, no later than as follows:

1. If the member's surviving spouse is the member's sole designated beneficiary, except as provided in paragraph 6 of this subsection, distributions to the surviving spouse shall begin by December 31 of the calendar year immediately following the calendar year in which the member died, or by December 31 of the calendar year in which the member would have attained ~~seventy and one-half~~ **SEVENTY-TWO** years of age, if later.

2. If the member's surviving spouse is not the member's sole designated beneficiary, except as provided in paragraph 6 of this subsection, distributions to the designated beneficiary shall begin by December 31 of the calendar year immediately following the calendar year in which the member died.

3. If there is no designated beneficiary as of September 30 of the year following the year of the member's death, the member's entire interest shall be distributed by December 31 of the calendar year containing the fifth anniversary of the member's death.

4. If the member's surviving spouse is the member's sole designated beneficiary and the surviving spouse dies after the member but before distributions to the surviving spouse begin, this subsection, other than paragraph 1 of this subsection, applies as if the surviving spouse were the member.

5. For purposes of this subsection and subsection G, distributions are considered to begin on the member's required beginning date or, if paragraph 4 of this subsection applies, the date distributions

are required to begin to the surviving spouse under paragraph 1 of this subsection. If annuity payments irrevocably commence to the member before the member's required beginning date, or to the member's surviving spouse before the date distributions are required to begin to the surviving spouse under paragraph 1 of this subsection, the date distributions are considered to begin is the date distributions actually commence.

6. If the member dies before distributions begin and there is a designated beneficiary, distribution to the designated beneficiary is not required to begin by the date prescribed in paragraph 1 or 2 of this subsection as long as the member's entire interest will be distributed to the designated beneficiary by December 31 of the calendar year containing the fifth anniversary of the member's death. If the member's surviving spouse is the member's sole designated beneficiary and the surviving spouse dies after the member but before distributions to either the member or the surviving spouse begin, this paragraph applies as if the surviving spouse were the member.

D. Unless the member's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the required beginning date, as of the first distribution, calendar year distributions shall be made pursuant to subsections E, F and G. If the member's interest is distributed in the form of an annuity purchased from an insurance company, distributions shall be made pursuant to the requirements of section 401(a)(9) of the internal revenue code and the regulations that are issued under that section by the United States secretary of the treasury. Any part of the member's interest that is in the form of an individual account described in section 414(k) of the internal revenue code shall be distributed in a manner satisfying the requirements of section 401(a)(9) of the internal revenue code and the regulations that are issued under that section by the United States secretary of the treasury that apply to individual accounts.

E. The following provisions govern the determination of the amount to be distributed each calendar year:

1. If the member's interest is paid in the form of annuity distributions, payments under the annuity shall satisfy the following requirements:

(a) The annuity distributions shall be paid in periodic payments made at intervals not longer than one year.

(b) The distribution period shall be over a life or lives or over a period certain not longer than the period described in subsection F or G.

(c) Once payments have begun over a period certain, the period certain shall not be changed even if the period certain is shorter than the maximum permitted.

(d) Payments shall either be nonincreasing or increase only as follows:

(i) By an annual percentage increase that does not exceed the annual percentage increase in a cost-of-living index that is based on prices of all items and issued by the bureau of labor statistics.

(ii) To the extent of the reduction in the amount of the member's payments to provide for a survivor benefit on death, but only if the beneficiary whose life was being used to determine the distribution period described in subsection F dies or is no longer the member's beneficiary pursuant to a qualified domestic relations order within the meaning of section 414(p) of the internal revenue code.

(iii) To provide cash refunds of employee contributions on the member's death.

(iv) To pay increased benefits that result from a plan amendment.

2. The amount that must be distributed on or before the member's required beginning date or, if the member dies before distributions begin, the date distributions are required to begin under subsection C, paragraph 1 or 2, is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. Payment intervals are the periods for which payments are received, such as bimonthly, monthly, semiannually or annually. All of the member's benefit accruals as of the last day of the first distribution calendar year shall be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the member's required beginning date.

3. Any additional benefits accruing to the member in a calendar year after the first distribution calendar year shall be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which the amount accrues.

F. The following provisions govern annuity distributions that commence during a member's lifetime:

1. If the member's interest is being distributed in the form of a joint and survivor annuity for the joint lives of the member and a nonspouse beneficiary, annuity payments to be made on or after the member's required beginning date to the designated beneficiary after the member's death must not at any time exceed the applicable percentage of the annuity payment for the period that would have been payable to the member using the table set forth in question and answer number 2 of section 1.401(a)(9)-6 of the regulations issued by the United States secretary of the treasury. If the form of distribution combines a joint and survivor annuity for the joint lives of the member and a nonspouse beneficiary and a period certain annuity, the requirement in the preceding sentence applies to annuity payments to be made to the designated beneficiary after the expiration of the period certain.

2. Unless the member's spouse is the sole designated beneficiary and the form of distribution is a period certain and no life annuity, the period certain for an annuity distribution commencing during the member's lifetime may not exceed the applicable distribution period for the member under the uniform lifetime table prescribed in section 1.401(a)(9)-9 of the regulations issued by the United States secretary of the treasury for the calendar year that contains the annuity starting date. If the annuity starting date precedes the year in which the member reaches seventy years of age, the applicable distribution period for the member is the distribution period for seventy years of age under the uniform lifetime table set forth in section 1.401(a)(9)-9 of the regulations issued by the United States secretary of the treasury plus the excess of seventy over the age of the member as of the member's birthday in the year that contains the annuity starting date. If the member's spouse is the member's sole designated beneficiary and the form of distribution is a period certain and no life annuity, the period certain may not exceed the longer of the member's applicable distribution period, as determined under this paragraph, or the joint life and last survivor expectancy of the member and the member's spouse as determined under the joint and last survivor table prescribed in section 1.401(a)(9)-9 of the regulations issued by the United States secretary of the treasury, using the member's and spouse's attained ages as of the member's and spouse's birthdays in the calendar year that contains the annuity starting date.

G. The following provisions govern minimum distributions if a member dies before the date distributions begin:

1. Except as provided in subsection C, paragraph 6, if the member dies before the date distribution of the member's interest begins and there is a designated beneficiary, the member's entire interest shall be distributed, beginning no later than the time prescribed in subsection C, paragraph 1 or 2,

over the life of the designated beneficiary or over a period certain not exceeding either of the following:

(a) Unless the annuity starting date is before the first distribution calendar year, the life expectancy of the designated beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year immediately following the calendar year of the member's death.

(b) If the annuity starting date is before the first distribution calendar year, the life expectancy of the designated beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year that contains the annuity starting date.

2. If the member dies before the date distributions begin and there is no designated beneficiary as of September 30 of the year following the year of the member's death, distribution of the member's entire interest shall be completed by December 31 of the calendar year containing the fifth anniversary of the member's death.

3. If the member dies before the date distribution of the member's interest begins, the member's surviving spouse is the member's sole designated beneficiary and the surviving spouse dies before distributions to the surviving spouse begin, this subsection applies as if the surviving spouse were the member, except that the time by which distributions must begin shall be determined without regard to subsection C, paragraph 1.

H. IF A MEMBER DIES AFTER THE MEMBER'S REQUIRED BEGINNING DATE AND HAD NOT COMMENCED DISTRIBUTION OF RETIREMENT BENEFITS, ASRS SHALL TREAT THE MEMBER AS HAVING COMMENCED DISTRIBUTION OF RETIREMENT BENEFITS ON THE MEMBER'S REQUIRED BEGINNING DATE. NOTWITHSTANDING SECTION 38-776, ASRS SHALL DETERMINE THE MEMBER'S RETIREMENT BENEFIT AS A STRAIGHT LIFE ANNUITY AS OF THE DATE OF THE MEMBER'S REQUIRED BEGINNING DATE. THE ESTATE OF THE MEMBER IS ENTITLED TO THE MEMBER'S BENEFIT PAYMENTS AND ANY REMAINING MEMBER CONTRIBUTIONS ON ACCOUNT WILL BE DISBURSED PURSUANT TO SECTION 38-763.

I. For the purposes of this section:

1. "Designated beneficiary" means the individual who is designated as the member's beneficiary to receive benefits under this article and is the designated beneficiary under section 401(a)(9) of the internal revenue code and question and answer number 1 of section 1.401(a)(9)-4 of the regulations issued by the United States secretary of the treasury.

2. "Distribution calendar year" means a calendar year for which a minimum distribution is required. For distributions beginning before the member's death, the first distribution calendar year is the calendar year immediately preceding the calendar year that contains the member's required beginning date. For distributions beginning after the member's death, the first distribution calendar year is the calendar year in which distributions are required to begin pursuant to subsection C.

3. "Life expectancy" means life expectancy as computed by use of the single life table in section 1.401(a)(9)-9 of the regulations issued by the United States secretary of the treasury.

4. "Required beginning date" means the date payment of a member's benefits shall commence **IN ACCORDANCE WITH 401(A)(9)(C) OF THE INTERNAL REVENUE CODE OF 1986., which shall not be later than the April 1 following the calendar year in which the member attains seventy and**

~~one half years of age or the calendar year in which the member terminates employment, whichever occurs later.~~

38-759. Late retirement

A. A member who is eligible for normal retirement benefits on the member's normal retirement date may elect to defer receiving retirement benefits.

B. Notwithstanding this section, payment of a member's deferred benefits shall not commence later than the **MEMBER'S REQUIRED BEGINNING DATE IN ACCORDANCE WITH 401(A)(9)(C) OF THE INTERNAL REVENUE CODE OF 1986**~~April 1 following the calendar year in which the member attains seventy and one half years of age or the calendar year in which the member terminates employment, whichever occurs later.~~

38-797.07. LTD program benefits; limitations; definitions

A. The LTD program is subject to the following limitations:

1. Except as provided in paragraph 9 of this subsection, monthly LTD program benefits shall not exceed two-thirds of a member's monthly compensation, reduced by:

(a) For a member whose disability commences before July 1, 2008, sixty-four percent of social security disability benefits that the member and the member's dependents are eligible to receive.

(b) For a member whose disability commences on or after July 1, 2008, eighty-five percent of social security disability benefits that the member and the member's dependents are eligible to receive, but not including:

(i) The amount of attorney fees approved pursuant to social security administration rules and reasonable documented costs paid to an attorney to secure that disability benefit.

(ii) Any cost-of-living adjustments that are granted after the member commences benefits under this section.

(c) For a member whose disability commences before July 1, 2008, eighty-three percent of social security retirement benefits that the member is eligible to receive.

(d) For a member whose disability commences on or after July 1, 2008, eighty-five percent of social security retirement benefits that the member is eligible to receive, but not including any cost-of-living adjustments that are granted after the member commences benefits under this section.

(e) All of any workers' compensation benefits.

(f) All of any payments for a veteran's disability if both of the following apply:

(i) The veteran's disability payment is for the same condition or a condition related to the condition currently causing the member's disability.

(ii) The veteran's disability is due to, or a result of, service in the armed forces of the United States.

(g) All of any other benefits by reason of employment that are financed partly or wholly by an employer, including payments for sick leave. This subdivision does not include any retirement benefit that is received by the member pursuant to a state retirement system or plan other than ASRS.

(h) Fifty percent of any salary, wages, commissions or other employment-related pay that the member receives or is entitled to receive from any gainful employment in which the member actually engages.

2. For a member whose disability commences on or after August 2, 2012, a member's monthly income from the monthly LTD program benefits and sources listed in paragraph 1 of this subsection shall not exceed one hundred percent of the member's monthly compensation at the time disability commences. ASRS shall offset the member's monthly LTD program benefits by the amount necessary to reduce the member's total monthly income to meet the limit prescribed in this paragraph.

3. Monthly LTD program benefits are not payable until a member has had a disability for a period of six consecutive months.

4. Monthly LTD program benefits are not payable to a member who files an initial claim for disability more than twelve months after the date of the member's date of disability unless the member demonstrates to ASRS good cause for not filing the initial claim within twelve months after the date of disability.

5. Monthly LTD program benefits are not payable to a member who is receiving retirement benefits from ASRS, [UNLESS RETIREMENT BENEFITS ARE REQUIRED UNDER A.R.S. § 38-775](#).

6. Monthly LTD program benefits are not payable to a member whose disability is due to, or a result of, any of the following:

(a) An intentionally self-inflicted injury.

(b) War, whether declared or not.

(c) An injury incurred while engaged in a felonious criminal act or enterprise.

(d) For a member whose most recent membership in the LTD program commences before July 1, 2008, an injury or sickness for which the member received medical treatment within three months before the date of the member's coverage under the LTD program. This subdivision does not apply to a member who either:

(i) Has been an active member of an employer for twelve continuous months.

(ii) Is employed by an employer before July 1, 1988.

(e) For a member whose most recent membership in the LTD program commences on or after July 1, 2008, an injury or sickness for which the member received medical treatment within six months before the date of the member's coverage under the LTD program. This subdivision does not apply to a member who has been an active member of an employer for twelve continuous months.

7. Monthly LTD program benefits cease to be payable to a member at the earliest of the following:

(a) The date the member ceases to have a disability.

(b) The date the member:

(i) Ceases to be under the direct care of a doctor.

(ii) Refuses to undergo any medical examination or refuses to participate in any work rehabilitation program for which the member is reasonably qualified by education, training or experience and that is requested by the insurance company or claims administrator that is selected by the board to administer the LTD program.

(c) The date the member withdraws employee contributions with interest and ceases to be a member.

(d) The later of the following:

(i) The member's normal retirement date.

(ii) The month following sixty months of payments if disability occurs before sixty-five years of age.

(iii) The month following attainment of seventy years of age if disability occurs at sixty-five years of age or after but before sixty-nine years of age.

(iv) The month following twelve months of payments if disability occurs at or after sixty-nine years of age.

(e) If the member is convicted of a criminal offense and sentenced to more than six months in a jail, prison or other penal institution, the first day of the month following the first thirty continuous days of the member's confinement for the remainder of the confinement.

8. Monthly LTD program benefits are payable only for disabilities that commence on or after July 1, 1988.

9. Except as provided in paragraph 2 of this subsection, the minimum benefit for a member who is entitled to receive monthly LTD program benefits is \$50 per month.

10. Members are eligible to receive the LTD program benefits and payments described in paragraph 1 of this subsection, and the reductions provided by paragraph 1 of this subsection apply even though the social security benefits are not actually paid as follows:

(a) For primary and dependent social security benefits, the members are eligible for the social security benefits until the social security benefits are actually awarded, or if the social security benefits are denied, until the member pursues the social security appeal process through a hearing before a social security administrative law judge or until the insurance company or claims administrator determines that the member is not eligible for social security benefits.

(b) For benefits and payments from any other source provided in paragraph 1 of this subsection, the members are eligible for the benefits if it is reasonable to believe that those benefits will be paid on proper completion of the claim or would have been paid except for the failure of the member to pursue the claim in time.

11. A member shall be considered to have a disability if based on objective medical evidence:

(a) During the first thirty months of a period of disability, the member is unable to perform one or more duties of the occupation held by the member when the member developed a disability.

(b) For a member who has received monthly LTD program benefits for twenty-four months within a five-year period, the member is unable to perform any work for compensation or gain for which the member is reasonably qualified by education, training or experience in an amount at least equal to the scheduled LTD program benefits prescribed in paragraph 1 of this subsection.

B. A member who is eligible pursuant to article 2 of this chapter and who receives monthly LTD program benefits is entitled to receive service credit pursuant to article 2 of this chapter from the time disability commences until LTD program benefits cease to be payable, except that for a member who receives monthly LTD program benefits on or after June 30, 1999, the number of years of service credited to the member's retirement account during the period the member receives LTD program benefit payments shall not cause the member's total credited service for retirement benefits to exceed the greater of thirty years or the total years of service credited to the member's retirement account on the commencement of disability.

C. This section does not prohibit a member whose disability has been established to the satisfaction of the board from relying on treatment by prayer through spiritual means in accordance with the tenets and practice of a recognized church, religious denomination or Native American traditional medicine by a duly accredited practitioner of the church, denomination or Native American traditional medicine without suffering reduction or suspension of the member's monthly LTD program benefits.

D. ASRS may suspend or terminate benefits under this article if a member fails to provide information, data, paperwork or other materials that are requested by ASRS or the insurance company or claims administrator that is selected by the board to administer the LTD program. ASRS or its contracted administrator may investigate information that indicates a member may have falsified information or records related to LTD program eligibility or benefits or may not otherwise meet the requirements of LTD program eligibility. In connection with an investigation involving the LTD program, ASRS or its contracted administrator may collect and examine any statement or evidence, or may authorize a third party to collect and examine any statement or evidence, that relates to a member falsifying information or records related to LTD program eligibility or benefits. If the member provides the information requested, ASRS shall retroactively reinstate the benefits or claim for which the member qualifies under this article.

E. For the purposes of this section:

1. "Objective medical evidence" means evidence that established facts and conditions, as perceived without distortion by personal feelings, prejudices or interpretations, and includes x-rays, quantitative tests, laboratory findings, data, records, reports from the attending physician and reports from a consulting physician, as applicable.

2. "Received medical treatment" means that the member consulted with or received the advice of a licensed medical or dental practitioner, including advice given during a routine examination, and it includes situations in which the member received medical or dental care, treatment or services, including the taking of drugs, medication, insulin or similar substances.

3. "Social security" and "social security disability" includes the railroad retirement act of 1974 (P.L. 93-445; 88 Stat. 1305; 45 United States Code sections 231 through 231v).

38-751

38-751. Nonparticipatory employer liability allocation; exemption; definitions

A. ASRS shall establish a separate fund for an employer other than a charter school that is:

~~1.~~ No longer participating in ASRS as a result of any of the following:

~~(a)~~ 1. The character of the employer changes from a public entity to a private entity.

~~(b)~~ 2. An employer, other than this state, dissolves.

~~(c)~~ 3. Through legislative action, the employer is no longer enrolling new employees in ASRS or no longer contributing to ASRS on behalf of current employees or groups of employees who otherwise would be eligible for ASRS membership.

~~2. Based on the number of contributing employees as of August 3, 2018 both of the following apply:~~

~~(a) Considered to employ a minimum of fifty employees as of one year preceding the employer's nonparticipation date.~~

~~(b) Is no longer participating in ASRS as a result of reducing the number of actively contributing employees by thirty percent or more over a three-year period or by fifty percent or more over any period of time by filling a position ordinarily filled by an employee of the employer with an employee who is not otherwise actively contributing, unless the employee participates in another Arizona retirement plan specified in article 3, 4 or 6 of this chapter, or an optional retirement plan specified in title 15, chapter 12, article 3.~~

~~B. Subsection A, paragraph 2 of this section does not apply to this state unless the reduction of actively contributing employees is the result of hiring one or more leased employees.~~

C. For a nonparticipating employer described in subsection A of this section, ASRS shall allocate an actuarial accrued liability and a designated asset amount to the nonparticipating employer's separate fund as of the nonparticipation date, which shall be calculated as follows:

1. The actuarial accrued liability shall equal the sum of the plan employer actuarial accrued liability and the LTD program employer actuarial accrued liability. Actuarial accrued liability shall be calculated based on the same actuarial assumptions and methods as the actuarial valuation performed immediately preceding the nonparticipating employer's nonparticipation date.

2. The designated asset amount shall equal the sum of the following:

(a) The plan employer actuarial accrued liability multiplied by the plan funded percentage.

(b) The LTD program employer actuarial accrued liability multiplied by the LTD program funded percentage.

D. All monies and securities transferred to the nonparticipating employer's separate fund shall be credited to that fund. A record of the market value and the cost value of such transferred contributions shall be maintained for actuarial and investment purposes. ASRS shall make all decisions regarding the nonparticipating employer's separate fund.

E. After establishing the nonparticipating employer's separate fund, the fund shall be adjusted for all of the following:

1. All contributions made by employees of the nonparticipating employer.
2. All contributions made by the nonparticipating employer.
3. All plan, LTD program and any other benefits paid to the nonparticipating employer's members who are active, inactive, retired or on long-term disability.
4. All plan, LTD program and any other benefits paid to the survivors of the nonparticipating employer's members.
5. The applicable share of the investment gains and losses.
6. Expenses associated with the administration of the nonparticipating employer's separate fund, including any administrative, development, actuarial, legal, custodial and investment management costs associated with the fund. These expenses shall be paid directly by the nonparticipating employer or included in the employer's liability for the purposes of determining the employer's contribution rate.

F. After establishing the nonparticipating employer's separate fund, the nonparticipating employer and any employees of that employer who are enrolled in ASRS shall continue to have contribution requirements to the nonparticipating employer's separate fund. The contribution requirements shall be calculated as follows:

1. All employees of the nonparticipating employer who are enrolled in ASRS shall continue to make contributions through payroll deductions based on the contribution rate determined for the employees of participating employers of ASRS pursuant to section 38-736.

2. The nonparticipating employer shall continue to make contributions through lump sum payments in accordance with section 38-735, equal to the sum of:

- (a) Contributions owed through payroll deductions based on the contribution rate determined for participating employers pursuant to section 38-737.

- (b) The amount required to amortize the past service funding requirement in the nonparticipating employer's separate fund over a period that is determined by the board and consistent with generally accepted actuarial standards. In determining the past service funding period, the board shall seek to improve the funded status whenever the nonparticipating employer's separate fund is less than one hundred percent funded.

G. The ASRS actuary shall determine the actuarial assumptions used to determine the contribution requirements for the nonparticipating employer under subsection F of this section. Notwithstanding section 38-737, the contribution for the nonparticipating employer may not be determined as a percentage of compensation due to the anticipated decline of compensation for employees of the nonparticipating employer participating in ASRS. The nonparticipating employer shall certify on each payroll the amount to be contributed and shall remit that amount to ASRS at a rate that is consistent with the rate paid by the participating employers. Each fiscal year, amounts that are not remitted

through payroll contributions pursuant to this section shall be invoiced to the employer and shall be paid within the same fiscal year the nonparticipating employer is invoiced.

H. This section does not permit an employer to alter the irrevocable agreement approved by the board under section 38-729.

I. For the purposes of calculating an employer's liability under this section, members who are active, inactive, retired or on long-term disability are considered employees of the nonparticipating employer if the member's most recent employer was the nonparticipating employer as of the nonparticipation date.

~~J. An employer that is no longer participating pursuant to this section is not eligible to participate in ASRS after the employer's nonparticipation date.~~

~~K. J.~~ This section does not apply to an employer whose existence was terminated by legislative action or otherwise became a nonparticipating employer as described in subsection A of this section on or before January 1, 2013.

~~L. K.~~ For the purposes of this section:

1. "LTD program" means the program established by article 2.1 of this chapter.
2. "LTD program employer actuarial accrued liability" means the actuarial accrued liability for the employer's active and inactive members and the open LTD program claims for the employees of the employer as of the nonparticipation date.
3. "LTD program funded percentage" means the total market value of LTD program assets divided by the total LTD program actuarial accrued liabilities, as of the actuarial valuation performed immediately preceding the nonparticipation date. If the percentage is greater than one hundred percent, the LTD program funded percentage is one hundred percent.
4. "Nonparticipation date" means the date on which the employer is no longer participating in ASRS.
5. "Plan" means the retirement plan established by this article.
6. "Plan employer actuarial accrued liability" means the plan's actuarial accrued liability for all benefits provided under this article, including benefits established in section 38-783, for the employer's active, inactive or retired members as of the actuarial valuation performed immediately preceding the nonparticipation date.
7. "Plan funded percentage" means the plan's total market value of assets divided by the plan's actuarial accrued liability for all benefits provided under this article, including benefits established in section 38-783, for all active, inactive or retired members as of the actuarial valuation performed immediately preceding the nonparticipation date. If the percentage is greater than one hundred percent, the plan funded percentage is one hundred percent.

38-748

38-748. Employer payments for ineligible contributions; definitions

A. If an employer pays contributions on behalf of any person who is not eligible by statute or rule for ASRS membership or pays contributions on compensation that is not eligible by statute or rule for ASRS contributions and either ASRS or a court determines that ASRS ~~is legally obligated to~~ shall provide a person with any benefit or credit under this article or article 2.1 of this chapter based on such contributions, the employer shall pay to ASRS any unfunded liability resulting from the provision of benefits or credit to the person.

B. If the employer does not remit full payment of the unfunded liability pursuant to subsection A of this section within ninety days after being notified by ASRS of the amount due, the unpaid amount accrues interest until the amount is paid in full.

C. Credited service ceases to accrue as of the date that ASRS or a court first determines that ASRS is legally obligated to provide any benefit or credit to the person.

D. If the amount in the person's ASRS account is greater than the present value of the benefit or credit, ASRS shall retain the entire account and is not required to refund, credit or offset any excess against future contributions.

E. This section applies to an employer that employs, either directly or indirectly, a person who performs services for a third-party organization and that does not have a written representation by ASRS of the person's eligibility.

F. For the purposes of this section:

1. "Amount in the person's ASRS account" means two times the person's retirement contributions made pursuant to section 38-736:

(a) Plus:

(i) Interest on the person's retirement contributions made pursuant to section 38-736.

(ii) Any contributions made for the purchase of service credits pursuant to section 38-742, 38-743, 38-744 or 38-745.

(iii) Interest on the amount contributed for the purchase of service credits pursuant to section 38-742, 38-743, 38-744 or 38-745.

(b) Minus any amounts paid by ASRS pursuant to this article or article 2.1 of this chapter.

2. "Interest" means the interest rate assumption that is approved by ASRS for actuarial equivalency.

3. "Unfunded liability" means:

(a) For a person who is not eligible by statute or rule for ASRS membership, the amount, if any, that the present value of the person's benefit or credit, using the actuarial assumptions approved by ASRS, exceeds the amount in the person's ASRS account calculated as of the date that ASRS or a court first determines that ASRS is legally obligated to provide any benefit or credit to the person.

(b) For contributions on compensation that is not eligible by statute or rule for ASRS contributions, the difference, if any, of the amount that the present value of a person's benefit or credit, using the actuarial assumptions approved by ASRS, exceeds the amount of the present value of the benefit or credit the person would receive if the ineligible contributions, and the compensation and credit associated with those ineligible contributions, had not been reported to ASRS and the amount in the person's ASRS account that is associated with the ineligible contributions on compensation.

Agenda Item #6

MEMORANDUM

TO: Mr. Clark Partridge, Chair, Arizona State Retirement System (ASRS) Operations, Audit and Legislative Committee

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Jessica Thomas, Government Relations Officer

DATE: September 21, 2020

RE: **AGENDA ITEM NO. 6:** Presentation, Discussion and Appropriate Action Regarding 2020 Rulemaking Initiative Related to Unfunded Liability Invoices

Purpose

To provide a draft of the rulemaking related to rules related to unfunded liability invoices under A.R.S. § 38-748.

Recommendation

Action item: In order to ensure compliance with open meeting law, staff will provide its recommendation for Committee consideration during the presentation.

Background

The 2020 Regulatory Agenda listed new rules to be drafted to clarify requirements related to unfunded liability invoices under A.R.S. § 38-748.

Ms. Jessica Thomas, Government Relations Officer, will provide a brief update of the status of this rulemaking.

Attachments

Draft rulemaking language related to Unfunded Liability Invoices under A.R.S. § 38-748

R2-8-119

R2-8-119. ~~Expired~~ Employer Payments for Ineligible Contributions; Unfunded Liability Invoice

- A.** Upon calculating an unfunded liability amount under A.R.S. § 38-748, the ASRS shall send an Unfunded Liability Invoice to the Employer through the Employer's secure ASRS account.
- B.** An Employer that owes an unfunded liability amount to the ASRS pursuant to A.R.S. § 38-748, shall remit full payment of the unfunded liability amount within 90 days of being notified of the unfunded liability pursuant to subsection (A).
- C.** Pursuant to A.R.S. § 38-735(C), if the ASRS does not receive full payment from the Employer of the unfunded liability amount within 90 days of being notified of the unfunded liability amount, the unpaid portion of the unfunded liability amount shall accrue interest at the assumed actuarial investment earnings rate listed in R2-8-118(A).
- D.** The ASRS may collect any unfunded liability and interest amount pursuant to A.R.S. §§ 38-723 and 38-735(C).

R2-8-122. Remittance of Contributions

- A.** Each Employer shall certify on each payroll the amount to be contributed by each one of their employee members of the ASRS and shall remit the amount of employee member contributions to the ASRS not later than 14 days after the last day of each payroll period. Payments of employee member contributions not received in the offices of the ASRS by the 14th day after the last day of the applicable pay-roll period shall become delinquent after that date and shall accrue interest at the assumed actuarial investment earnings rate listed in R2-8-118(A) per annum from and after the date of delinquency until payment is received by the ASRS.

- B.** Each Employer shall remit the amount of employer contributions to the ASRS not later than 14 days after the last day of each payroll period. Payments of employer contributions not received in the offices of the ASRS by the 14th day after the last day of the applicable payroll period shall become delinquent after that date and shall accrue interest at the assumed actuarial investment earnings rate listed in R2-8-118(A) per annum from and after the date of delinquency until payment is received by the ASRS.
- C.** Each Employer shall remit contributions pursuant to this Section based on the contribution rate in effect on the pay period end date.
- D.** Each Employer shall certify on each payroll that each employee included on that payroll has met the requirements for active member eligibility and that all contributions to be remitted are for eligible compensation under A.R.S. § 38-711.
- E.** If an Employer improperly certifies that an employee has met the requirements for active member eligibility and that all contributions remitted for the employee are eligible for compensation under subsection D, the ASRS may charge the employer an unfunded liability amount under A.R.S. § 38-748.

Agenda Item #7

Annual Audit Report

**Arizona State Retirement System
Internal Audit Division
Internal Audit Annual Report
For the Fiscal Year Ended June 30, 2020**

Date: 29 September 2020

Prepared by: Harold Mackey, CISA
Chief Internal Auditor

MEMORANDUM

TO: Mr. Clark Partridge, Chair, Arizona State Retirement System (ASRS) Operations, Audit, and Legislative Committee (OALC)

FROM: Harold Mackey, Chief Internal Auditor

DATE: September 29, 2020

RE: Internal Audit Annual Audit Report for Fiscal Year 2020

I am pleased to submit the Internal Audit Annual Report for the fiscal year ended June 30, 2020. This report itemizes the services provided and other activities performed by the Internal Audit Division and fulfills the reporting standards as set forth by the Institute of Internal Auditors, International Professional Practices Framework.

Included in this report are the Fiscal Year 2020 audit plan, explanations for any deviations from the plan, audits completed during the year, those in progress at year-end, and other internal audit activities. For the fiscal year ended June 30, 2020, we issued nine reports related to various engagements, and the results of our work have been communicated to the Operations, Audit, and Legislative Committee. Additionally, I have reviewed the Arizona Department of Administration's (ADOA) ASRS Internal Control Self-Assessments and reports from ASRS external assessors, CliftonLarsonAllen (CLA), NEPC, and Clearwater Compliance.

I believe the work of the Internal Audit Division has contributed to the efficient and effective operations of the ASRS by making positive contributions to risk management efforts, control systems, and governance processes.

I want to thank you, the Committee, ASRS Director, and Senior Management for the support provided in the performance of my responsibilities.

Respectfully,

Harold Mackey

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1 Executive Summary

The purpose of the internal audit annual report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. Additionally, the annual report assists oversight agencies in their planning and coordination efforts. It is submitted in compliance with the ASRS Board Governance Policy Handbook and the Internal Audit Charter.

The Internal Audit Division's mission is to enhance and protect the ASRS's value by providing risk-based and objective assurance, advice, and insight. A systematic, disciplined approach is used to evaluate risk management, internal controls, operational, and governance processes. The primary objective of the internal audit function is to assist the Board of Trustees, the Director, and ASRS senior management in effectively discharging their responsibilities.

Fiscal Year 2020 was a productive year. Nine projects were completed, three projects were in progress on June 30, and two projects were carried forward to Fiscal Year 2021. The office was staffed for the entire year with a full-time Chief Internal Auditor and two full-time Auditors.

Internal Audit requested a preliminary review of our audit operational documentation in preparation for the pending peer review.

2 Compliance with Standards

Per the Institute of Internal Auditors' guidance, the Chief Internal Auditor must deliver an annual Internal Audit opinion and report that can be used by the Board to inform its annual governance statement. The annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organization's framework of governance, risk management, and control processes.

Professional Standards require that Internal Audit must assess and make appropriate recommendations to improve the organization's governance process:

"evaluate the design, implementation and effectiveness of the organization's ethics-related objectives, programs and activities" (PS 2110.A1);

"evaluate the effectiveness and contribute to the improvement of risk management processes" (PS 2120); and

"assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement" (PS 2130).

3 Internal Audit Plan for Fiscal Year 2020 and Explanation of Changes

Available time for fiscal year 2020's projects after consideration of ASRS holidays, vacation, sick leave, and wellness was 2,480 hours for Internal Audit staff and 3,360 total hours. Audit resources were used

to perform the required risk-based audits, special projects, investigations, meetings, committee services, and audit department activities and administration.

Listed below is the Fiscal Year 2020 Audit Plan approved by the ASRS Board on November 15, 2019.

Project	High-Level Audit Objective	Hours
<i>Financial, Compliance, Operational, Efficiency & Effectiveness Audits</i>		
GASB 68 Testing FY2020	Conduct fieldwork (staff augmentation to CLA) in support of GASB 68 compliance.	320
Foreign annuitants	Obtain evidence of Proof of life for non-US retirees and beneficiaries.	200
Information Risk Management tool	Evaluate the likelihood that the IRM tool is not utilized, resulting in a failure to effectively manage and monitor risks.	200
Shift to cloud	Evaluate the impact of cloud migration. (Cloud Computing, Mobile Device Security, Co-Location/Disaster Recovery, InfoSec). Assess the impact of a delay in implementation/migration to cloud services: cost and/or security issues.	240
Accuracy of Data - Membership Accounting	Determine whether controls are sufficient to ensure accurate receipt and management of member contributions and data.	200
Complaints Handling	Review the processes in place to capture complaints and ensure complaints are dealt with promptly and appropriately, and any lessons learned are taken into account. [Service audit performed before retirement, etc.]	120
Access Management	Provide reasonable assurance that access to retirement plan records and data is restricted to personnel authorized by management.	120
Employer Relations: Assessment	Determine whether Employer Relations' compliance function and training model is able to maintain and increase employers' compliance with statutes.	200
Data Accuracy: survivor beneficiaries	Determine the status of beneficiaries in receipt of survivor for 20/30+ years.	120
Data Accuracy: 100+ years old annuitants	Assess Proof of Life for 100+-year-old retirees.	120
Risk Management [program assessment]	Evaluate the aggregate of ARM/IRM utilization, staff analysis, management decisions, and processes, under identify major risks. [Program Assessment]	200
Security Risk Assessment Review	Observe, obtain, read, and follow-up on any issues identified in the security risk assessment conducted by the ASRS Information Security Off.	40
Cash Controls Audit: System-level	Ensure cash controls are operating effectively for certain high-risk processes: Annuitant, LTD, and Withdraw Payments; Receipt and handling of Live Checks.	120
In-House Disbursements – Check printing /Other	Assess the controls to mitigate risks associated with in-house disbursements.	160
Cash Controls Audit: Process-level	Ensure cash controls are operating effectively for certain high-risk processes: Annuitant, LTD, and Withdraw Payments; Receipt and handling of Live Checks.	280
Network Penetration Tests	Observe, obtain, read, and follow-up on any issues identified during the penetration tests.	40
<i>Follow-up Audits</i>		
Cash Controls Follow-up	Review recommendations from the FY 2017 Cash Control audit to determine implementation status	80

Listed below are projects carried over from the FY2019 Audit Plan.

Project	Action
Health Insurance Accounting Group (HIAG)	Complete audit of the HIAG, four-part audit, Employers, Other Employers, PSPRS, and ADOA.
GASB 68 Testing FY 2019	Late start and External Auditor transition
Management Fees (Investment)	Completion of audit by Chief Internal Auditor (CIA) due to staffing.
Cash Controls Follow-up	Monitored the implementation of recommendations from the Cash Controls Review of 2017

Listed below are changes to the FY2020 Audit Plan.

Reference	Description	Preliminary Engagement Objective	Changes to Engagement
A	Cash Flow Security: Includes incoming and outgoing cash related to pensions, transfers, refunds, contributions, and funding/repatriation of investments.		
A.1	Cash Controls Follow-up	Review recommendations from the FY 2017 Cash Control audit to determine implementation status	Consolidated with semi-annual audit follow-up reporting.
A.2	Cash Controls Audit: Process-level	Ensure cash controls are operating effectively for certain high-risk processes: Annuitant, LTD, and Withdraw Payments; Receipt and handling of Live Checks.	Covered in the FY 2020 CLA Cash Controls Review.
A.3	Cash Controls Audit: System-level	Ensure cash controls are operating effectively for certain high-risk processes: Server Security, Application Controls, and Application/User Access.	Covered in the FY 2020 CLA Cash Controls Review.
A.4	In-House Disbursements – Check printing	Assess the controls to mitigate risks associated with in-house disbursements.	Covered in the FY 2020 CLA Cash Controls Review.
A.5	In-House Disbursements – Check printing (other)	Assess the controls to mitigate risks associated with in-house manual check printing.	Covered in the FY 2020 CLA Cash Controls Review.
B	Data Security (Data at Rest, Data in transit): Includes all data, as well as PII & PHI.		
B.1	Security: Data/Information (Controls)	Evaluate the controls in place to mitigate known risks associated with all forms of data, including cybersecurity, privacy, and possible control failures.	Waiting to verify if a third-party assessment is planned for FY 2021.
B.2	Security: Data/Information (Standards)	Assess the likelihood of the Agency's ability to achieve standards [NIST] in a timely manner, etc.	Combined with Security: Data/Information (Controls)

Reference	Description	Preliminary Engagement Objective	Changes to Engagement
B.4	Access Management	Provide reasonable assurance that access to retirement plan records and data is restricted to personnel authorized by management.	Partially covered in the FY 2020 CLA Cash Controls Review. Identify gaps and consolidate with Asset protection, C.3.
B.6	Network Penetration Tests	Observe, obtain, read, and follow-up on any issues identified during the penetration tests.	Third-party review. To be covered in Audit follow-ups.
B.7	Security Risk Assessment Review	Observe, obtain, read, and follow-up on any issues identified in the security risk assessment conducted by the ASRS ISO.	Third-party review. To be covered in Audit follow-ups.
G	Sub-optimal identification of key risks		
G.1	Risk Management	Evaluate the aggregate of ARM/IRM utilization, staff analysis, management decisions, and processes, under identify major risks. [Program Assessment]; Determine whether the controls cited in the ERM or IRM tool are in place and operating effectively. [Controls Review]; Evaluate the likelihood that the ERM tool is not utilized, resulting in a failure to effectively manage and monitor risks.	Moved to 3Q2021 audit and assessment. Consolidated with G.2 and G.3.
H	Significant Disruption to Customer Service: Includes quality and timeliness of the most important customer touch-points, including timeliness of disbursements and response to member requests.		
H.1	Customer Service	Determine whether ASRS members and employers are receiving timely, accurate, and courteous service.	Deferred; currently monitoring ASRS KPI metrics.
I	Software Development		
I.1	Software Development: SDLC Assessment	Determine whether software development projects are significantly over-budget or the scope is materially not met.	Advisory/Assessment of current TSD Development Projects.
J	Cloud Migration		
J.3	Conversion to g-suite	Assess whether the conversion to g-suite results in unfavorable/unanticipated outcomes.	Low priority; may be considered as an assessment.
K	Data Accuracy/Data Integrity		
K.3	Employer Relations: Assessment	Determine whether Employer Relations' compliance function and training model is able to maintain and increase employers' compliance with statutes; Determine whether Employer	Deferred; Audit kickoff planned for FY 2021. Consolidate with K.2.

Reference	Description	Preliminary Engagement Objective	Changes to Engagement
		Relations' employer data analysis testing framework is able to adequately identify employer non-compliance with the State of Arizona Statutes and Rules.	
K.4	Data Accuracy: beneficiaries status	Determine the status of beneficiaries in receipt of survivor for 20/30+ years; Assess Proof of life for 100+-year-old retirees.	Consolidated domestic Proof of life. Priority ranked as low.

4 Fiscal Year 2020 Completed Projects

Nine planned projects were completed during the fiscal year, four planned projects remain in-progress on June 30, 2020, and two planned projects were carried forward to Fiscal Year 2021. In addition to the planned projects, the Internal Audit Division began four special projects or investigations during the year because of changing risks, reports on the Fraud Hotline directly to this office, or other factors. Several investigations were completed, and the Internal Audit Division continues to receive calls regarding potential fraud to ASRS members as well as non-members. These investigations are a result of the COVID-19 pandemic and the associated CARES act funding for unemployment insurance.

Listed below are the completed projects for Fiscal Year 2019.

Ref No.	Report Date	Report Title	High-Level Audit Objective
A.1	6/30/2020	Cash Controls Follow-up	Review recommendations from the FY 2017 Cash Control audit to determine implementation status
E.2	2/12/2020	Complaints Handling	Review the processes in place to capture complaints and ensure complaints are dealt with promptly and appropriately, and any lessons learned are taken into account.
G.4	3/10/2020	Information Risk Management tool	Evaluate the likelihood that the IRM tool is not utilized, resulting in a failure to effectively manage and monitor risks.
K.1	11/6/2019	GASB 68 Testing FY 2019	Conduct fieldwork (staff augmentation to CLA) in support of GASB 68 compliance.
K.1	6/24/2020	GASB 68 Testing FY2020	Conduct fieldwork (staff augmentation to CLA) in support of GASB 68 compliance.
L.1	3/26/2020	Management Fees (Investment)	Ensure the ASRS is paying only for services contracted for with the Vendors and that the performance of the services and the accuracy of the billings are monitored.
L.2.1	10/8/2020	Health Insurance Accounting Group	Provide a comprehensive review of the Health Insurance Accounting Group function as it pertains

Ref No.	Report Date	Report Title	High-Level Audit Objective
			to the submission of surveys to update benefits plans offered.
L.2.2	2/24/2020	Health Insurance Accounting Group - Other Employers	Provide a comprehensive review of the Health Insurance Accounting Group function pertaining to non-state agencies or organizations.
L.4	6/30/2020	Internal Quality Assurance Review	Conduct a self-assessment of Internal Audit's compliance with professional auditing standards. Assess Internal Audit's audit and administrative practices in order to make recommendations for continuous improvement. This project includes Internal Audit performance measure tracking and reporting.

We also performed follow-up work during the year to monitor whether management's plans of action have been effectively implemented. Status reports of outstanding audit findings and recommendations were issued quarterly to the Operations, Audit, and Legislative Committee.

Listed below are the Fiscal Year 2020 projects in progress at year-end.

Ref No.	Report Title	Report Status	High-Level Audit Objective
K.6	Foreign annuitants	In progress / Ongoing	Obtain evidence of Proof of life for non-US retirees and beneficiaries.
B.3	Accuracy of Data - Membership Accounting	In progress / Ongoing	Determine whether controls are sufficient to ensure accurate receipt and management of member contributions and data.
E.2	Complaints Handling	In progress / Ongoing	Review the processes in place to capture complaints and ensure complaints are dealt with promptly and appropriately, and any lessons learned are taken into account.
L.2.3	Health Insurance Accounting Group function - PSPRS	In progress / Ongoing	Provide a comprehensive review of the Health Insurance Accounting Group function pertaining to PSPRS.

Listed below are the two planned projects, which were carried forward to Fiscal Year 2021.

Ref No.	Report Title	High-Level Audit Objective
J.1	Shift to cloud	Evaluate the impact of cloud migration. (Cloud Computing, Mobile Device Security, Co-Location/Disaster Recovery, InfoSec). Assess the impact of a delay in implementation/migration to cloud services: cost and/or security issues.

K.3	Employer Relations: Assessment	Determine whether Employer Relations' compliance function and training model is able to maintain and increase employers' compliance with statutes.
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Listed below is the status of audit finding recommendations from each project completed during fiscal year 2020. The status is based on the following definitions and dependent upon the targeted implementation dates:

- **Implemented:** Successful development and use of a process, system, or policy to implement a recommendation.
- **Ongoing:** Ongoing development of a process, system, or policy to address a recommendation.
- **Not Implemented:** Lack of a formal process, system, policy to address a recommendation.
- **No Action Required:** No findings or recommendations were made.

During the fiscal year period, the Health Insurance Premium Benefits: Plans and Carriers had the following recommendations.

Recommendation	Status
Create an SOP to detail survey reception, including responsible parties, and follow up procedures when surveys are not received timely.	Implemented
Alternately, the procedures may be added to an existing SOP pertaining to the processing of New/Updated plans.	Implemented
Appropriate follow up with the employers should occur prior to the benefit-beginning period if a survey has not been received, and all follow-up actions should be documented in the notes for the employer in POL. Employer documents should never be altered to avoid questions of validity in the case a document may become a public record.	Implemented
An appropriate plan that is documented in an SOP pertaining to the above recommendation.	Implemented
Potential errors should be noted in the review process. If explanations for apparent discrepancies exist to explain them, they should be noted in the employer's account on POL.	Implemented
Procedures should be clearly defined and additional training utilized to refresh employee practices.	Implemented
A request to update POL to simplify the process would save time and reduce the potential for errors.	Ongoing
Testing by FSD staff and reported concerns may help to resolve issues more timely.	Ongoing
An update to the SOP should be made to include the need to notate changes and utilize traceable communications such as emails or Electronic Secure Messages.	Implemented
SOPs should be reviewed and updated or approved annually.	Implemented
Since all surveys are received electronically, they do not need to be printed.	Implemented
Electronic maintenance is more efficient and reduces costs	Ongoing
All reviews need to be performed timely in all cases of data entry with an effective audit trail to verify them.	Implemented

Recommendation	Status
A review and approval function in POL would better record the segregation of duties and be easily reported by queries.	Ongoing
All responsibilities should have checks and balances to prevent errors and fraud. A hard stop in POL would resolve the issue.	Ongoing
A request to the POL team in TSD should be submitted to restrict employees from altering any data in a plan from also submitting for posting.	Ongoing

The status of audit recommendations from projects completed in previous years were monitored during fiscal year 2020. Listed below are the projects with ongoing status of audit recommendations.

Report Issued	Recommendation	Status
Vendor Efficacy		
3/6/2019	ASRS should review our own software to ensure that it meets our needs without redundancies or gaps.	Implemented
3/6/2019	The ASRS should review vendors at least annually to see if any should be changed to inactive or stop. The spelling of vendor names should be reviewed at this time.	Implemented
3/6/2019	Ask managers and supervisors to review available classes to identify those that would be beneficial to their staff and communicate this.	Implemented
Espiritu Schools		
1/19/2019	Espiritu should return the members' ineligible contributions to the members and take a credit for the ineligible members that have been identified.	Ongoing
1/19/2019	Espiritu should properly enroll any active members.	Ongoing
Military Call-up Service Credits		
9/13/2018	Develop a follow-up procedure to ensure payment is received.	Implemented
9/13/2018	Develop a follow-up procedure to ensure invoices are processed.	Implemented
9/13/2018	Determine a methodology to date invoices properly.	Implemented
Cash Controls Review - 2017		
7/21/2017	Recommend allocating specific resources to help with the remediation of high-risk vulnerabilities. If internal resources are not available, determine if financial resources are available to contract a third party for assistance with getting the ASRS to a baseline.	Implemented
7/21/2017	Short-term: A query should be generated to review all edits made to member accounts that did not require a second approver against supporting documentation.	Implemented
7/21/2017	Long-term: A second approval should be required in POL for all annuity amount and bank account number changes.	Ongoing
7/21/2017	Short-term: All changes made by disbursements users should be reviewed against supporting documents prior to approving payments sent to State Street Bank (SSB).	Implemented

Report Issued	Recommendation	Status
7/21/2017	Long-term: A second approval should be required in POL for all annuity amount and bank account number changes.	Ongoing
7/21/2017	Short-Term: All changes made by disbursements users should be reviewed against supporting documents prior to approving payments sent to SSB.	Implemented
7/21/2017	Long-Term: A second approval should be required in POL for all changes to the annuity amount and bank account number.	Ongoing
7/21/2017	We recommend the ASRS work to create benefits management reports for the Benefits Accounting and Disbursements team members to utilize in order to properly monitor payments.	Ongoing
7/21/2017	Long-term: The ASRS is planning to start processing member payments in-house. Controls can then be implemented to require automated second review for changes to payments.	Implemented
7/21/2017	Short-term Recommendation: It may be beneficial to inquire of SSB if a control can be implemented to require a second approval for edits to member payments, potentially by a signature page or by having a second PLUSWeb approver. Implementing recommendations at B-2.25, B-2.9, and B-2.19 would also work together to address the risks identified.	No Action Required
7/21/2017	We recommend the ASRS move the responsibility of reviewing differences between PLUSWeb and POL to a user without write privileges in PLUSWeb. Additionally, we recommend the report of discrepancies be sent to multiple the ASRS employees and reviewed by a secondary ASRS employee.	implemented
7/21/2017	We recommend that MSD keeps a single log of all checks received.	Ongoing
7/21/2017	We recommend that MSD develop a tracking system so that when a service purchase has been calculated for a member, an MSD Benefits Advisor can follow up and ensure that FSD has processed the payment for that member. If it hasn't been processed by the deadline, then they can follow up with that member.	Ongoing
7/21/2017	Recommend removing administrator access from accounting users and having IT administer the application, adding and removing users.	Ongoing

5 Advisory Services and Non-audit Services

The Internal Audit Division did not perform any consulting services as defined by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. However, the Internal Audit Division performed a number of advisory services and contributed to special projects, in addition to its general administrative activities.

Other value-added activities performed during fiscal year 2020 are itemized as follows:

Advisory-related

- Reviewed and discussed the Office of Auditor General's Report – Audit findings related to ASRS Employers that may impact employer and member contributions.
- Legislation Implementation monitoring – provided assurance that pending legislation is addressed and implemented timely.
- Reconstitution Plan development – participated in the development of the ASRS reconstitution plan for a staged return to the office.
- Reconstitution Plan Compliance – provided preliminary testing of the current state of Office staff and infrastructure prior to return to the office. Provide recommendations for improvement.
- Advised on Continuity of Operations Plan and Crisis Management Plan development
- Advised Contribution Accounting and Employer Relations on accruals
- Advised ASRS staff regarding a retiree with 20.33 years of ineligible service
- Advised on follow-up actions related to the 9 vs. 12 study
- Advised Contribution Accounting and Employer Relations about questionable accruals
- Reviewed Gadsden Elementary School District files for Employer Relations possible spiking for the Auditor General's report
- Participated and advised on Arizona Revised Statutes for harmonization
- Suggested a correction plan for an employer for incorrect member hours reporting with Employer Relations
- Assisted Employer Relations and Financial Services Division with Pay Period Ending reporting
- Performed a GASB 68 Walkthrough with CliftonLarsonAllen
- Advised on quality improvement of Financial Services Division Templates
- Employer Relations and Compliance Monitoring

Special Projects

- Fraud Oversight (Hotline, Administration, Investigations)
- ASRS Reconstitution Plan
- Job Shadowing
- In-house Disbursements Project

Meetings and Committee Service

- Operation, Audit, and Legislative Committee
- ASRS Board of Trustees Meetings
- Appeals Committee
- Investment Committee
- Annual Governance Reviews
- Executive Management Meetings
- Senior Management Meetings

- Investment Management Division's Combined Asset Class Committee
- Enterprise Risk Management Committee
- Continuity of Operations Meetings
- Quarterly Internal Audit Round Table
- Rules Writing
- External Auditors/Assessors discussion
- TSD Project Updates
- TSD Project Kickoff: OM Re-Engineering Employer Imaging
- TSD Project Kickoff - Oracle Modernization - Accounts Receivable
- TSD OMRE HI Files Sprint Reviews
- TSD OMAR- Sprint Reviews

Audit Department Activities and Administration

- Internal Audit Division Risk Management
- Contingency planning reviews and discussions
- Internal Audit Planning
- Review of Internal Audit Operating Documents
- Redevelopment of Reference Manual
- OALC Reporting
- Development of Data Analytics for Internal Audit
- Evaluation of Sword/Active Risk Management for IA usability
- Performing updates to OnStrategy
- Discussion with CLA of Internal Audit Activities (Engagements and Fraud-related)
- Replied to emails regarding possible inappropriate acts
- Internal Audit COOP
- Internal Audit Status reporting

Primary Training for staff: CPE & Professional Development

- The Institute of Internal Auditors
- The Information Systems Audit and Control Association
- The Arizona Society of CPAs
- Primary Training for staff
- The Association of Public Pension Fund Auditors
- The National Association of State Auditors, Controllers, and Treasurers

6 Internal Quality Assessment

The Internal Audit Division maintains a quality assurance and improvement program. To ensure adherence to auditing standards, the following is performed:

- Annual review of compliance with International Standards for the Professional Practice of Internal Auditing.
- Remain up-to-date on auditing standards through continuing professional education, membership in accounting and auditing associations, technical reading, and independent research.
- Complete an audit standards compliance review at the end of each audit.
- Comply with annual continuing professional education requirements.

Areas of improvement include:

- Complete annual independence disclosure statements.
- Annual review of compliance with Generally Accepted Government Auditing Standards.
- Monitoring of performance measures.

Ongoing assessment of the internal audit activity is maintained through daily supervision and review, audit exit conferences, annual employee performance evaluations; monitoring of performance measures; and meetings with the Director, Deputy Director, Senior Manager, and Operations, Audit, and Legislative Committee Chair.

Monitoring of other performance measures include:

- Effective utilization of resources.
- Meeting internal and external deadlines.
- Timely completion of audits and special projects.
- Percentage of audit recommendations implemented by management.
- Maintaining of professional certifications.

The Chief Internal Auditor set the following goals for fiscal year 2021 to aid in compliance with standards and increase efficiency. Listed below are the expected outcomes for each goal.

1. Continue to move the Internal Audit Division towards automation and paperless auditing.
2. Leverage the rollout of the ASRS Enterprise Risk Management tool.
3. Make better use of the ASRS OnStrategy for measuring and tracking strategic goals and objectives.
4. Update the Internal Audit Operations Manual to reflect changes in standards, industry best practices, and internal audit operational processes.
5. Redesign the Internal Audit Division's website for usability and refresh content.
6. Integrate the COSO Internal Control-Integrated Framework into the Risk Assessment Process. This goal was not met. Integration of the COSO Internal Control Framework remains a goal for Fiscal Year 2021.
7. Position the Internal Audit Division for the upcoming peer review.

7 External Quality Assurance Review

Our most recent external quality assurance review was dated July 8, 2016. The review was a Self-Assessment with Independent Validation and indicated the Internal Audit Division's activity generally conforms to the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and Code of Ethics. The Internal Audit Department is preparing to have a peer review during the last quarter of fiscal year 2021.

In preparation for the fiscal year 2021 peer review, the Internal Audit Division is using the guidance from the Institute of International Auditor's practice guide: Assisting Small Internal Audit Activities in Implementing the Professional Practice of Internal Auditing. The Internal Audit Division will incorporate additional guidance as deemed appropriate to meet conformance standards.

8 Reporting Suspected Fraud and Abuse

To comply with the fraud reporting requirements of the policy, the Internal Audit Division has taken the following actions:

- The Fraud Hotline number is on the "Contact US" page of the ASRS website. It is provided to report suspected fraud, compliance, or ethical concerns.
- Technology has been provided to the Chief Internal Auditor to monitor the Fraud Hotline remotely during the ongoing COVID-19 pandemic.
- The Fraud, Criminal Acts and Whistleblower policy has been updated.
- The Standard Operating Procedures to use when Fraud or other acts have been reported is being revised.
- New employee orientation includes a review of ASRS policies on standards of conduct for state employees and ethics.
- Internal Audit provides an overview of fraud reports during new employee orientation.

Highlights:

- Fraud Hotline Reporting – IAD and Privacy Officer received a number of calls related to potential unemployment insurance fraud.
- Established a working relationship with the ASRS Privacy Officer.
- No other significant issues of activities that required further investigation.

Quarterly Audit Update



Quarterly Audit Report

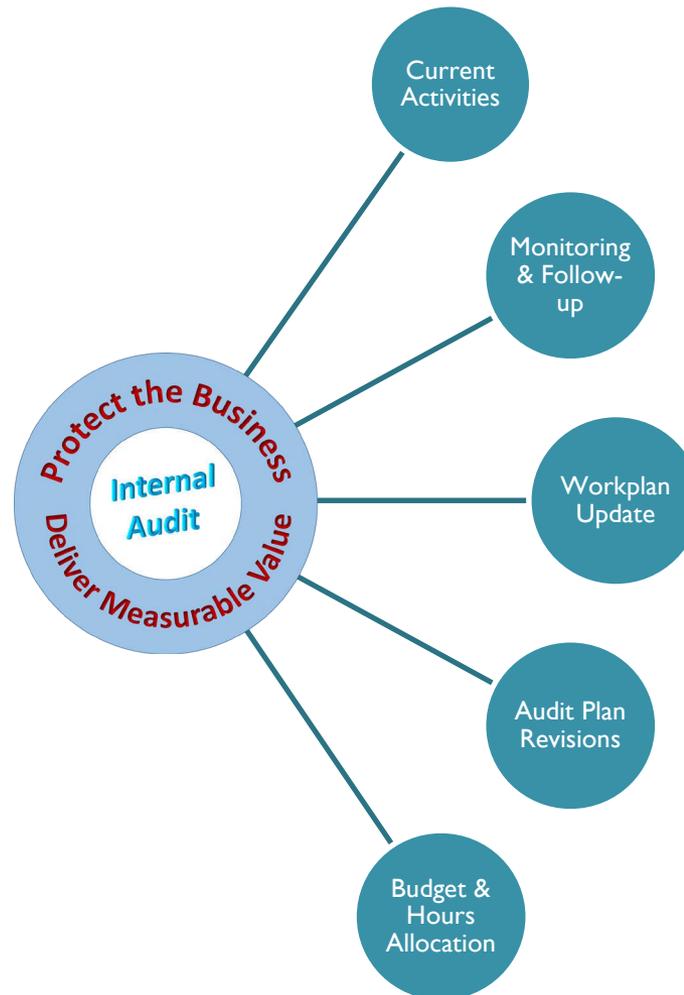
FY 2021/Q1 October 14 2020

Internal Audit Division

As of September 29, 2020



Internal Audit



Current Activities

- Administrative and Other Matters
 - Update IA procedures to align with enhanced audit functions
 - Comprehensive update of IA Reference Manual
 - Revisions to the IAD Biennial Plan – proposed FY 2021 adjustments
 - Fraud Oversight SOP revisions
 - Evaluation Audit Software solutions
 - Job Shadowing – postponed due to COVID-19
- Staffing report
 - IA weekly meetings
 - 2 auditors during this time period
 - Planning for an additional staff auditor
 - IA Staff Continuing Education and Professional Development

Current Activities

ADVISORY

- Reconstitution Plan / Reconstitution Compliance monitoring
- COVID-19 / COOP-related meetings
- Employer Relations and Compliance Monitoring [Monthly]
- IMD Combined Asset Class Committee meetings
- Advisory on internal controls for TSD development activities [Sprint Meetings]
- Review of pay codes
- Fraud Hotline monitoring
- Assessments of potential Investigations
- Advisor to Employer Relations cross functional team

Monitoring & Follow-up

INTERNAL AUDIT FOLLOW-UP STATUS

- Health Insurance Accounting Group (HIAG) – monitoring implementation status of recommendations

EXTERNAL AUDIT & REVIEW FOLLOW-UP STATUS

- Cash Controls Review – Performed initial review of the 2020 report
- Collaborating with FSD on recommendations

Workplan Update

REPORTING MODIFICATIONS

- Added Advisory/Consultation & Oversight Services section
- Added Other Activities section
- Will use actual hours for Advisory/Consultation & Oversight Services and Other Activities sections

AUDIT AND ASSURANCE

- Impact of COVID-19 Pandemic
- Foreign Annuitants has been extended
- Peer Review [QAIP] In-process; Working logistics
- Evaluating Foreign Annuitants [non-compliant forms]
- Health Insurance Accounting Group
 - ADOA assessment not performed due to recent 2020 process changes

FY 2021 Audit Plan Revisions

Ref	Description	Preliminary Engagement Objective	Changes to Engagement
A	Cash Flow Security: Includes incoming and outgoing cash related to pensions, transfers, refunds, contributions, and funding/repatriation of investments.		
A.1	Cash Controls Follow-up	Review recommendations from the FY 2020 Cash Control audit to determine implementation status.	Consolidated with semi-annual audit follow-up reporting.
A.4	In-House Disbursements – Check printing	Assess the controls to mitigate risks associated with in-house disbursements.	Covered in CLA Cash Controls Review
A.5	In-House Disbursements – Check printing (other)	Assess the controls to mitigate risks associated with in-house manual check printing.	Covered in CLA Cash Controls Review
A.6	In-House Disbursement – Direct Deposit	Evaluate controls to mitigate risks (including tax reporting) and to ensure timely, accurate and secure disbursements.	Covered in CLA Cash Controls Review
A.7	In-House Disbursement – 1099 tax reporting	Evaluate controls to mitigate risks related to the 1099 tax reporting process and to ensure timely, accurate and secure disbursements.	Covered in CLA Cash Controls Review
A.8	Treasury Management Function	Assessment of the arrangements to ensure compliance with the Agency’s Treasury Management Strategy, including access to cash and investments is appropriately restricted.	Covered in CLA Cash Controls Review
A.9	Investment Transactions	Investment transactions are properly recorded and reported. [Investment accounting]	Covered in CLA Cash Controls Review

FY2021 Audit Plan Revisions

Ref	Description	Preliminary Engagement Objective	Changes to Engagement
B	Data Security (Data at Rest, Data in transit): Includes all data, as well as PII & PHI.		
B.1	Security: Data/Information (Controls)	Evaluate the controls that are in place to mitigate known risks associated with all forms of data, including cybersecurity, privacy, and possible control failures.	Waiting to verify if a third-party assessment is planned for FY 2021.
B.2	Security: Data/Information (Standards)	Assess the likelihood of the Agency's ability to achieve standards [NIST] in a timely manner, etc.	Combined with Security: Data/Information (Controls).
B.4	Access Management	Provide reasonable assurance that access to retirement plan records and data is restricted to personnel authorized by management.	Covered in CLA assessment. Identify gaps and consolidate with Asset protection, C.3.
B.5	Records Management Compliance	Ensure that the Agency is complying with its retention and disposal schedule.	Low priority; may be included pending resource availability.
B.6	Network Penetration Tests	Observe, obtain, read, and follow-up on any issues identified during the penetration tests.	Third-party review. To be covered in Audit follow-ups.
B.7	Security Risk Assessment Review	Observe, obtain, read, and follow-up on any issues identified in the security risk assessment conducted by the ASRS Information Security Officer (ISO).	Third-party review. To be covered in Audit follow-ups.
B.8	Security: Cyber threat velocity	Assess the ASRS' ability to adequately safeguard PII and implement controls to guard against fraudulent acts.	Pending third-party assessment scope.

FY2021 Audit Plan Revisions

Ref	Description	Preliminary Engagement Objective	Changes to Engagement
C	Significant Disruption to Operations: Includes interruption of major functional capabilities, including impacts to disbursement timeliness resulting from a business emergency or a security event (fraud or other incident).		
C.1	Continuity Of Operations Plan (COOP)	Determine the Agency's state of readiness with respect to the development of the COOP and other related plans.	Currently on hold due to current COOP engagement from COVID pandemic.
C.2	Disaster Recovery	Determine the Agency's state of readiness with respect to its ability to successfully recovery from a significant disruption to its technology infrastructure (any issues identified during network disaster recovery testing).	Pending verification of third-party scope.
C.3	Asset Protection	To reasonably assure that retirement plan assets (records, files, and documents) are sufficiently protected from loss, theft, fraud, and other similar irregularities and identifiable hazards and are adequately safeguarded.	Consolidate with Access Management, B.4.
D	Investment Returns: Significantly negative returns for an extended duration.		
D.1	Financial Market: Unfunded Actuarial Accrued Liability (UAAL) & Reputational Impact	Evaluate the Agency's policy to mitigate the impact of capital market volatility and inability to achieve assumed rate of return for the total fund leads to higher UAAL/contribution rates in Defined Benefit (DB) plan.	Assessed as a lower priority; pending staff availability.
D.2	Financial Market: Environmental Impacts	Evaluate the Agency's policy to mitigate environmental risks (effect of climate change impacts investments, vendor/ASRS operations, etc.)	Assessed as a lower priority; pending staff availability.

FY2021 Audit Plan Revisions

Ref	Description	Preliminary Engagement Objective	Changes to Engagement
E	Reputation: Actions or responses that significantly negatively impact the Agency.		
E.1	Reputation: Defined Benefit (DB) Plan	Assess DB plan design perception and possible resulting legislative changes; staff actions that could adversely impact reputation.	Can be realized in the Financial Market audit(s).
F	Succession & Workforce Planning: If limited staff engagement exists, or there is a lack of motivated and skilled in-house staff or limited external options, when key staff transitions occur.		
F.1	Succession planning	Assess the readiness of ASRS workforce plan to ensure a smooth transfer of leadership (does not fail); Rationale: a significant number of ASRS personnel in key positions are eligible for, or near retirement eligibility (includes SMEs with specific current and/or institutional knowledge and skills).	Assessed as lower priority.
F.2	Staffing plan	Determine the Agency's ability for attracting/retaining staff.	Assessed as lower priority.
G	Sub-optimal identification of key risks.		
G.1	Risk Management	Evaluate the aggregate of ARM/IRM utilization, staff analysis, management decisions, and processes. [Program Assessment]; Determine whether the controls cited in the ERM or IRM tool are in place and operating effectively. [Controls Review]; Evaluate the likelihood that the ERM tool is not utilized, resulting in a failure to effectively manage and monitor risks.	Moved to 3Q 2021 audit and assessment. Includes the examination of the ERM tool.
G.2	Risk Management	Determine whether the controls cited in the ERM or IRM tool are in place and operating effectively. [Controls Review]	Consolidated into the Risk Management assessment.

FY2021 Audit Plan Revisions

Ref	Description	Preliminary Engagement Objective	Changes to Engagement
H	Significant Disruption to Customer Service: Includes quality and timeliness of the most important customer touch points, including timeliness of disbursements and response to member contacts.		
H.1	Customer Service	Determine whether ASRS members and employers are receiving timely, accurate and courteous service.	Continue to monitor KPIs for significant deviations.
H.2	Call Center [Vendor Service Level Agreement (SLA)]	Determine whether the systems used to support call center operations have too many instances of downtime; Assess whether the vendor is slow or unresponsive. [negotiated vendor SLA]	Continue to monitor KPIs for significant deviations.
H.3	Call Center [Staff SLA]	Determine whether the call center is at least meeting its service level objectives (has not met its service level objectives in over 12 months).	Continue to monitor KPIs for significant deviations.
I	Software Development.		
I.1	Software Development Life Cycle: Assessment	Determine whether software development projects are significantly over-budget or the scope is materially not met.	Advisory/Assessment of current development projects.
J	Cloud Migration.		
J.2	Legacy Information Systems	Evaluate the decommissioning process and assessment of transfer of internal controls, including security controls, to new systems.	Deferred until cloud migration.
J.3	Conversion to g-suite	Assess whether the conversion to g-suite results in unfavorable/ unanticipated outcomes.	Low priority, may be considered as an assessment.

FY2021 Audit Plan Revisions

Ref	Description	Preliminary Engagement Objective	Changes to Engagement
K	Data Accuracy / Data Integrity.		
K.3	Employer Relations: Assessment	Determine whether Employer Relations' compliance function and training model is able to maintain and increase employers' compliance with statutes; Determine whether Employer Relations employer data analysis testing framework is able to adequately identify employer non-compliance with the State of Arizona Statutes and Rules.	Consolidated ER and MSD Data Analytics assessment.
K.4	Data Accuracy: beneficiaries status	Determine the status of beneficiaries in receipt of survivor for 20/30+ years; Assess proof of life for 100+ year old retirees.	Consolidated domestic proof of life.
L	Internal Audit Focus.		
L.3	Fraud Governance	Determine whether reported potential fraudulent incidents are appropriately recorded and investigated on a timely basis.	Reconciling with Internal Audit Operation Manual; Updating SOP.
L5	Quality Assurance & Improvement Plan (QAIP) Peer Review	5-year review of IA from an external peer auditor.	Added time for peer review.

Budget/Hours Allocation

Audit/Audit-Related as of 6/24/2020	Priority	HOURS			
		Budgeted	Revised	Actual	Utilized ¹
HIAG - PSPRS	▶	160		140	88%
Accuracy of Data - Membership Accounting	▶	200		207	104%
Foreign annuitants	▶	200		180	90%
Risk Management [program assessment]	▶	640			
Shift to cloud	▶	500			
GASB 68 Testing FY2021	▶	320			
Employer Relations: Assessment	▶	600		23	4%
Internal Quality Assurance Review (QAIP)	▶	200			
QAIP Peer Review	▶	80			
Audit Follow-up	▶	80			
Total Hours		2980	0	550	

Advisory/Consultation & Oversight Services

External Audit Support	▶				
Continuity of Operations (COOP)	▶				
Fraud Hotline	▶				
Unspecified Advisory / Oversight Services	▶				

Other Activities

Audit plan 2022/2023	▶	150			
IA Process / Planning updates	▶	200			

Total Hours 3330 0 550

Notes:

¹ Provide an explanation of actual hours that exceed budget by more than 10%

External assessment; IA gap analysis & followup

Carryover audits FY 2019

Status	Projects
Not-Started	5
In-progress	5
Completed	0
On-Hold	0

Priority	Projects	%Complete
High ▶	8	0%
Med ▶	2	0%
Low ▶	0	0%
Revised	0	0%

Target	Status	Estimated		Comments
		End Date		
▲	In-progress	1Q		Remaining hrs. 7/1/2020
▲	In-progress	1Q		Remaining hrs. 7/1/2021
■	In-progress	2Q		Remaining hrs. 7/1/2022
■	Not-Started	3Q		
▲	In-progress	2Q		
■	Not-Started	4Q		
■	In-progress	2Q		pending entrance conference
■	Not-Started	4Q		
■	Not-Started	4Q		
■	Not-Started	4Q		

			Will use actual hours for tracking
			Will use actual hours for tracking
			Will use actual hours for tracking
			Will use actual hours for tracking

■			
■			

Agenda Item #8

MEMORANDUM

TO: Mr. Clark Partridge, Chair, Arizona State Retirement System (ASRS) Operations, Audit and Legislative Committee (OALC)

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director, and Chief Operations Officer

DATE: September 21, 2020

RE: **Agenda Item #8:** Presentation, Discussion, and Appropriate Action Regarding the 2021 Calendar Year OALC Meeting Schedule

Purpose

To discuss meeting dates for the 2021 calendar year for the OALC.

Recommendation

Action item: The OALC adopt a meeting schedule for the 2021 calendar year.

Background

The 2021 calendar option presented for the OALC's consideration sets quarterly meetings to be held in the first month of every quarter on the **second Wednesday** of the month. This follows the same schedule as calendar year 2020. The proposed dates for calendar year 2021 will allow Internal Audit to present a complete quarterly update and sufficient time for staff to prepare possible action items being moved to the Board for the times in which the meetings for the Committee and Board fall within the same month. The proposed meeting dates are as follows:

- January 13, 2021 @ 2:30 p.m.
- April 14, 2021 @ 2:30 p.m.
- July 14, 2021 @ 2:30 p.m.
- October 13, 2021 @ 2:30 p.m.

The Committee may choose an alternate schedule if the Committee would prefer.

Additional meetings may be scheduled as needed.

Attachment: Proposed OALC Meeting Calendar

2021 Calendar – ASRS BOARD

JANUARY

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

FEBRUARY

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28						

MARCH

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

APRIL

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

MAY

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

JUNE

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

JULY

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

AUGUST

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

SEPTEMBER

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

OCTOBER

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

NOVEMBER

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

DECEMBER

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

Holiday

Board Proposed Meeting Dates (6)

IC Proposed Meeting Dates (4)

OALC Proposed Meeting Dates (4)

**Note: There are no
materials for Agenda
Items #9 - 11**

Agenda Item #12

Note: Confidential materials have been provided to the Committee and not included in this book.

ASRS Cash Control Report

Note: Confidential
materials have been
provided to the
Committee and not
included in this book.

Agenda Item #13

MEMORANDUM

TO: Mr. Clark Partridge, Chair, Arizona State Retirement System (ASRS) Operations, Audit and Legislative Committee (OALC)

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Mr. Jeff Hickman, Information Security Officer (ISO)

DATE: September 30, 2020

RE: **Agenda Item #13** Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program

Purpose

To provide an update to the OALC on Information Security Program activities and the results of our recent Information Privacy Program assessment.

Recommendation

Information item only; no action required.

Background

The ASRS maintains significant amounts of personally identifiable information to conduct financial transactions, initiate long-term disability benefits, establish health care coverage in retirement, and provide survivor benefits on behalf of our members. With the rise of digital technology, complex connected systems, and the internet, protecting this information and the systems that store it has become more challenging and a preeminent agency priority.

This quarter's Information Security Program update will consist of two parts: a brief Information Security Program update describing the status of ongoing Information Security tasks, and presentation of the results of our 2020 Information Privacy Program assessment.

The external assessment of our Information Privacy Program is the primary means of evaluating the effectiveness of its implementation and to help us ensure we're adapting the program to keep up with changes in our environment. As in 2017, the assessment was conducted by CliftonLarsonAllen, LLP (CLA). The report produced by CLA may be found in the attached file *ASRS Privacy Assessment Report 2020.pdf*. Ms. Tamera Wilson, ASRS Privacy Officer, and Phillip Del Bello, Manager, Specialized Advisory Services, CLA, are present to address any questions about the assessment you may have.

Attachments: ASRS Privacy Assessment Report 2020.pdf
ASRS Information Security/Privacy OALC Presentation 102020

ASRS Privacy Assessment Report

**Note: Confidential
materials were
provided to the
Committee and not
included in this book.**

ASRS Information Security & Privacy Program Update

**Note: Confidential
materials were
provided to the
Committee and not
included in this book.**