

How...

ASRS Employees Deliver Service With PRIDE!

PROFESSIONALISM

We promote, strive for and expect individuals, teams, and divisions to possess professional qualities and skills to lead the organization.

- Displays a friendly, respectful and courteous demeanor even when confronted by adversity
- Has proactive and responsive approach to internal and external customer needs
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability • Has subject matter expertise
- Has critical thinking skills • Has an honest, fair, non-judgmental mind-set
- Is adaptable to beneficial change • Adheres to the ASRS Code of Conduct

RESULTS

We treasure the achievements of individuals, teams, divisions and the agency that energize the organization.

- Meets goals and objectives
- Completes projects
- Produces quality work products
- Satisfies customers
- Attains individual accomplishments
- Manages risks successfully

IMPROVEMENT

We appreciate individuals, teams or divisions who drive the agency forward with new, innovative ideas and solutions.

- Promotes new ideas
- Enhances outcomes and performance
- Solves problems
- Enhances morale
- Improves relationships
- Increases efficiency, effectiveness or reduces costs

DIVERSITY

We recognize that utilizing different talents, strengths and points of view, strengthens the agency and helps propel outcomes greater than the sum of individual contributors.

- Encourages an attitude of openness and a free flow of ideas and opinions
- Treats others with dignity and respect
- Works effectively to accomplish goals with teams comprised of dissimilar individuals
- Recognizes and promotes skills in others attained on and off the job

EXCELLENCE

We celebrate individuals, teams and divisions who exceed expectations and deliver service with a PRIDE that permeates the organization.

- Surpasses member, stakeholder and associate expectations
- Demonstrates a willingness to go the extra mile to engender a positive public image
- Embraces change in a manner that inspires others
- Accepts responsibility and challenges with enthusiasm
- Takes a personal interest in promoting teamwork through effective use of communication (verbal, non-verbal, written and technological techniques)
- Creates a motivated, healthy and productive work environment that celebrates and rewards the accomplishments of others



**ARIZONA STATE
RETIREMENT SYSTEM**



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

AGENDA

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

14th Floor Conference Room
3300 North Central Avenue
Phoenix, AZ 85012

February 9, 2016
10:30 a.m. Arizona Time

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Operations and Audit Committee (OAC) and to the general public that the ASRS OAC will hold a meeting open to the public on Tuesday, February 9, 2016, beginning at 10:30 a.m. Arizona Time in the 14th Floor Conference Room of the ASRS office, 3300 North Central Avenue, Phoenix, AZ 85012. Trustees of the Committee may attend either in person or by telephone conference call.

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

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

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

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks Mr. Jeff Tyne
Operations and Audit Committee Chair
2. Approval of the December 9, 2015 Public Meeting Minutes of the OAC Mr. Jeff Tyne

3. Presentation, Discussion and Appropriate Action Regarding a Risk Assessment of the Contracts and Procurement Functions of the ASRS Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
..... Ms. Lisa King
Strategic Planning Policy Analyst
..... Ms. Martha Rozen
Chief of Administrative Services
..... Mr. Russ Levine
Procurement and Budget Manager

4. Review of Recently Conducted Audits
 - City of Douglas – Employer Audit
 - Gila Bend USD – Employer Audit
 - Peoria USD – Employer Audit
 - Sun City Fire District – Employer Audit
 - ASRS Software Licensing – Internal Processes
 - 2015 Agency & Employer Compliance Follow-up..... Mr. Anthony Guarino
..... Mr. Bernard Glick
Chief Internal Auditor

5. Presentation, Discussion and Appropriate Action Regarding the ASRS Internal Audit Peer Review Scheduled for Presentation at the June 14, 2016 OAC Mr. Anthony Guarino
..... Mr. Bernard Glick

6. Presentation, Discussion and Appropriate Action Regarding the Internal Audit Quarterly Update Mr. Anthony Guarino
..... Mr. Bernard Glick

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

8. Call to the Public Mr. Jeff Tyne

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

9. Adjournment of the OAC

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

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

Dated February 2, 2016

ARIZONA STATE RETIREMENT SYSTEM

Melanie Alexander
Committee Administrator

Anthony Guarino
Deputy Director and Chief Operations Officer



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

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

HELD ON
Tuesday, December 9, 2015
10:30 A.M., Arizona Time

The Operations and Audit Committee (OAC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jeff Tyne, Chair, called the meeting to order at 10:31 A.M.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jeff Tyne, Chair
Dr. Richard Jacob (via teleconference)

Absent: Mr. Clark Partridge

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

2. Approval of the Minutes of the September 8, 2015 Public Meeting of the OAC

Motion: Dr. Richard Jacob moved to approve the minutes of the September 8, 2015 public meeting of the OAC. Mr. Jeff Tyne seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding Current Initiatives within the ASRS Operations

Ms. Sara Orozco, Manager, Strategic Planning and Analysis, provided an overview of the various initiatives currently underway at the ASRS to include the status and expected outcomes as follows:

a. Risk Assessments

Status: In fiscal year 2015, the following risk assessments were conducted:

- Investment Management
- Long Term Disability
- Service Purchase
- Contracts and Procurement

In fiscal year 2016, risk assessments are planned to cover all of the functions associated with member and employer services.

The agency is planning to further discuss its risk management efforts in early 2016 when it updates the Board on the agency's progress meeting Strategic Priority #2 in its 5-year Strategic Plan: Optimize Risk Management.

b. Information Security Efforts

Status: Ongoing. The agency received approval from the governor's office and legislature to hire additional FTE positions dedicated to security; however, the agency has not yet been successful in filling all the needed positions. This staffing shortage has slowed the overall implementation of the remediation plan until recruitment and training are complete.

The next external assessment will be conducted in 2016.

c. Information Privacy Efforts

Status: Ongoing. The privacy officer's priorities this year have been focused on:

- Identify and implement 'quick hits' that can be implemented with little to no effort (more secure use of SSN, ensuring proper handling of paper documents with member data).
- Increasing agency awareness of proper privacy practices through training and communications to staff.
- Incorporating privacy education into the new employee onboarding process.
- Beginning the data classification process.

As the privacy program matures and data classification efforts are completed, the privacy officer will identify technology enhancements needed to comply with the desired privacy framework. The agency has already identified a future effort to create a unique ID number for members that can be used in lieu of SSN wherever possible. This effort will begin as some of the other larger technology efforts currently underway begin to conclude.

d. Employer Customer Service Model

Status: Ongoing. Efforts this year have been focused on:

- Implementing organizational changes that will align employer customer service practices with member customer service practices.
- Making enhancements to the secure email system used between the ASRS and employers.
- The implementation of the new payroll file format with participating employers that will provide the ASRS with the ability to conduct more thorough data analysis on behalf of employers to identify potential compliance issues proactively.

In early 2016, as the new employer messaging system is implemented, the call center will begin to ramp up its efforts toward transitioning calls and emails from employer production teams to the member advisory center. When complete, this will create a central point of contact for employers, which will allow the ASRS to increase the amount of time and attention spent on employer training, education, and proactive data analysis.

e. Workforce Planning

Status: Ongoing. Efforts this year have been focused on identifying:

- Key positions within the agency that should have a workforce plan.
- Essential core competencies (skills and behaviors) for the key positions.

In 2016, we will be focusing on staff development for the key positions.

f. Technology Development: Oracle Modernization

- **Participant Demographics**
Status: Completed in December 2014
 - **Employer Demographics**
Status: Completed in April 2015.
 - **Membership Accounting**
Status: Completed in May 2015.
 - **Service Audit**
Status: Completed in May 2014
- g. Technology Development: Other Development Projects**
- **Domestic Relations Order (DRO) Enhancements**
Status: Completed in November 2014
 - **Secure Website – Enhancements for Retired Members**
Status: Completed in November 2014.
 - **Secure Website – Responsive Design Implementation**
Status: Completed in June 2015.
 - **Benefit Disbursements Project**
Status: Approved by ITAC on April 2015. Ongoing through 12/31/18

In response to Mr. Tyne's question regarding the Oracle Modernization, Ms. Orozco added that the focus in the upcoming year will be on service purchase and health insurance. Currently the service purchase module is scheduled to be completed by the end of FY2016. In addition, staff will likely work on projects to supplement service purchase with regard to either enhancements to current systems, based on staff feedback, or web enabling service purchase. The Oracle health insurance effort will proceed into next fiscal year. In addition, staff has already begun enhancements to supplement the Oracle effort. For example, the member enrollment process has begun and the goal is to be online for retiree open enrollment next year.

4. Presentation, Discussion and Appropriate Action Regarding a Web Steering Committee Update

Mr. David King, Assistant Director, Member Services, provided the Committee with the following Web Steering Committee update:

- a. Review of online accomplishments and implementations in 2015 (to date).**
Mr. King reviewed the reports with the Committee. He advised, approximately one year ago the ASRS split the website into two sites, a public website and a secure website. Although the two sites are hosted separately, they can also be linked together and members have the option to go directly to the secure website. The statistics reveal that member visits to the secure website are on the rise, as the visits to the public website have decreased, which was expected. Member calls to the ASRS have leveled out this past year, which could be the

result of more members accessing the secure website. The one on one visits continue to drop as well. More members are accessing their accounts to perform updates rather than seeking assistance from the ASRS staff to handle the updates for them. Mr. King reported that most of the goals the ASRS initially set have been met, so it's time to take a look at what other improvements can be made. The focus will now be on improving the employers' website capabilities.

b. Website Analytics Status Report.

Mr. King's review of the report revealed that there continues to be advances in member services and now the ASRS is moving toward implementing some of those advancements for the employers' by updating new features and news more often on the website, in addition to creating a new suite of online education for the employers.

Mr. King responded to questions from the Committee.

5. Review of Recently Conducted Audits

Mr. Bernard Glick, Chief Internal Auditor, announced there would be changes in the way the Internal Audit Division (IAD) handles employer audits in Fiscal Year 2016 as follows:

1. Employer audits will be based on one year, rather than auditing three years of data which will:
 - a. Allow IAD to complete 20-25 audits, as opposed to the current 12-15 per year.
 - b. Be easier and quicker for the employer to access payroll records IAD asks for because they will only have to pull records for one year rather than three years.
 - c. Enable IAD to educate the employers at an earlier stage of processing if they are in violation of a statute because of a recent statutory change the employer may not have been aware of, rather than notifying the employer three years after a statutory change that the employer is doing something that violates current statute.
2. IAD will begin testing of the Government Accounting Standards Board (GASB) 68 to identify missing demographics and reach out to the employer to obtain the missing data.

Mr. Glick reviewed the following audits conducted by the IAD.

- **City of Mesa – Employer Audit**
The IAD had six findings from the City of Mesa audit. The employer agreed with the findings and IAD's recommendations.
- **City of Show Low – Employer Audit**
The IAD had one finding from the City of Show Low audit. The employer agreed with the findings and IAD's recommendations.
- **Mammoth-San Manuel USD #8 – Employer Audit**
The IAD had one finding from the Mammoth-San Manuel USD #8 audit. The employer agreed with the findings and IAD's recommendations.
- **Santa Cruz County – Employer Audit**
The IAD had one finding from the Santa Cruz County audit. The employer agreed with the findings and IAD's recommendations.
- **Westwind Academy – Employer Audit**
The IAD had two findings from the Westwind Academy audit. The employer is no longer in business and IAD received no response to the findings and recommendations.

- **Williams USD – Employer Audit**

The IAD had five findings from the Williams USD audit. The employer agreed with the findings and IAD's recommendations.

- **Arizona Department of Administration – Employer Audit**

This was the largest employer audit the IAD has undergone. Per Mr. Glick, this audit took two and a half auditors to complete it. The IAD had four findings from the State of Arizona audit. The Arizona Department of Administration (ADOA) agreed with two of the findings and IAD's recommendations; however, only partially concurred with the remaining two findings and recommendations. After appealing to the ASRS, one of the requested adjustments from the ADOA was approved by the ASRS but the final finding remained unchanged.

Mr. Tyne commended the State of Arizona on a job well done considering they are responsible for more than 26,000 employees who are members of the ASRS. Mr. Glick concurred.

Mr. Paul Matson gave recognition to one of the ASRS' former Trustee's, Mr. Mike Smarik, who was responsible for recommending that the IAD perform a State of Arizona audit as a whole rather than audit each individual State agency. Mr. Matson agreed that this approach is more beneficial to both the IAD and the ADOA.

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

Mr. Bernard Glick provided a summary of the Internal Audit Quarterly Report. Mr. Glick indicated that most of this quarter involved quality review work. The Software Licensing audit has been completed and is currently awaiting management's response. The Software Licensing audit is expected to be presented to the OAC in either January or February, 2016, depending on the approved OAC calendar. Member statement testing has begun as well, so the IAD is currently on track with the 2016 Audit Plan.

7. Presentation, Discussion and Appropriate Action Regarding the 2016 OAC Calendar

The Committee reviewed proposed calendars option "A" and "B" presented by staff.

Motion: Dr. Richard Jacob moved to approve calendar option "B" which includes the following 2016 dates: February 9, April 12, June 14, August 9, October 11, and December 13. Mr. Jeff Tyne seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

8. Request for Future Agenda Items

To continue and possibly finalize the discussions to:

- Determine the optimal Strategic Plan goals for the ASRS Health Insurance.
- Determine the optimal application of whole case underwriting and cross-subsidization in setting premiums.
- Determine the optimal utilization and allocation options of the Retrospective Rate Adjustment Agreement Fund.

9. Call to the Public

There were no members of the public in Phoenix or Tucson.

10. Adjournment of the OAC

Motion: Dr. Richard Jacob moved to adjourn the meeting at 11:28 A.M. Mr. Jeff Tyne seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Respectfully Submitted,

ARIZONA STATE RETIREMENT SYSTEM

Melanie Alexander
Committee Administrator

Anthony Guarino
Deputy Director and Chief Operations Officer



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Paul Matson
Director

MEMORANDUM

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

FROM: Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Enterprise Risk Management (ERM) Committee

DATE: January 29, 2016

RE: **Agenda Item #3:** Presentation, Discussion and Appropriate Action Regarding a Risk Assessment of the Contracts and Procurement Functions of the ASRS

Purpose

Staff will provide the OAC with a risk assessment focusing on the agency contracts and procurement functions and the strategic goal of ensuring consistent, high performance within the agency by supporting an effective operating structure and a workforce that reflects agency values.

Recommendation

Informational only, no action required.

Background

Since 2007, the ASRS has conducted risk assessments and devised control strategies based on principles espoused by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The COSO reports, *Enterprise Risk Management – Integrated Framework: Executive Summary Framework*, dated September 2004 and *Internal Control – Integrated Framework: Framework and Appendices*, dated May 2013, are considered authoritative sources and promote an enterprise-wide, integrated risk management approach. The principles, as adopted by the ASRS, are intended to provide the ASRS Director and Board reasonable assurance the ASRS is taking appropriate steps to manage and mitigate risk according to its priorities.

The ASRS has organized an Enterprise Risk Management (ERM) Steering Committee, led by the Deputy Director and Chief Operations Officer and staffed with senior managers, to take an iterative approach and continuously assess the risks and threats facing the agency. Committee decisions and activities are monitored by the agency's Chief Internal Auditor, who has a direct reporting relationship with the ASRS Director and OAC Chair.

The ERM Committee's most recent focus has been on risks that threaten contracts and procurement.

Enterprise Risk Management (ERM) OAC Presentation

Focus on Agency Contracts and Procurement

February 2016

Section One (Executive Summary)

Significant Risks and Control Strategies

ASRS Strategic Goal #4:

Ensure consistent, high performance within the agency by supporting an effective operating cost structure and a workforce that reflects agency values.

'ASRS Contracts and Procurement' comprised of
Procurement and Budget Manager, Procurement Officer,
Contracts Administrator and Contracts/Facilities Administrator;
ASD Assistant Director designated as the Chief Procurement Officer

Significant Risks and Strategies

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>2. There is insufficient Procurement staff to cover workload, ensure adequate separation of duties, internal controls, etc.</p>	<p>Tolerance: Medium</p>	<p>Impact: Moderate</p>	<p>Current Controls: Workload is mostly predictable; contract expirations and larger projects are identified ahead of time. Two ASD managers are in place as trained back-up resources. ASRS users are SMEs and familiar with the products and services. The State Procurement Office (SPO) can be utilized as a back-up resource as needed.</p>	<p>Reduce the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Some Likelihood</p>	<p>Future Actions:</p> <ul style="list-style-type: none"> • Management should consider increasing staff levels: <ul style="list-style-type: none"> • Current staff levels limit post-signing contract administration • Current administrator is used for procurements rather than focusing on post-signing administration • ASD is evaluating current process roles, responsibilities and controls • In FY 2016 and 2017 IA will be auditing Procurement and service vendor contract fees 	
<p>8. Procurement staff and/or business user roles and responsibilities are not properly defined and carried out</p>	<p>Tolerance: Medium</p>	<p>Impact: Moderate</p>	<p>Current Controls: Policies and procedures are in place to define roles during the procurement process. During a solicitation, the roles and responsibilities are clearly defined for all participants by ASRS Procurement staff.</p>	<p>Reduce the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Some Likelihood</p>	<p>Future Actions: Management is changing how contracts are managed post-signing to define internal roles</p>	

Significant Risks and Strategies (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>10. Procurement participants have a conflict of interest (biased for/against vendors, previous employment link, family ties, etc.) and do not disclose that conflict</p>	<p>Tolerance: Medium</p>	<p>Impact: Major</p>	<p>Current Controls: Agency procurements follow current state requirements. Staff selected to participate in a significant procurement role are requested to disclose any relationship with possible vendors and informed of future employment limitations as a result of the procurement participation. Participants are required to disclose any conflict of interest in writing. Staff with a conflict is excluded from the process. Evaluation Committees are typically comprised of three or more participants. Multiple levels of review are in place. Staff signs a Code of Conduct annually. The ASRS has a fraud hotline and ADOA-SPO has a compliance hotline.</p>	<p>Evaluate the anticipated risk levels</p> <p>Management recommends IA include this risk in their FY 2017 audit</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Some Likelihood</p>	<p>Future Actions: Management is recommending that Internal Audit evaluate whether additional measures should be implemented because the ASRS has no mechanism to determine if the self-disclosure method is accurate and/or adequate (11/2/2015 ERMC decision).</p>	
<p>11. Limited vendor choices and/or lack of responses negatively impacts procurements</p>	<p>Tolerance: Medium</p>	<p>Impact: Moderate</p>	<p>Current Controls: Utilization of ProcureAZ maximizes exposure to all registered vendors. Advertisements for vendors are published in industry periodicals. ASRS belongs to multiple professional and industry-related organizations which improves reach for vendor choices.</p>	<p>Evaluate the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Some Likelihood</p>	<p>Future Actions: Additional research in the Long Term Disability industry is ongoing</p>	

Significant Risks and Strategies (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>12. RFPs and contracts terms are not clear resulting in requirements not being filled, prolonged negotiations, and/or contract disputes post-signing (performance, service, deliverables, etc.)</p>	<p>Tolerance: Low</p>	<p>Impact: Moderate</p>	<p>Current Controls: ASRS Procurement staff works with users to develop the scope to ensure needs are clearly identified. ASRS users tend to be SMEs and familiar with the products and vendors. Procurement staff utilize prior procurements, peer products, other agencies, etc. Contract terms are largely standardized and were created by AZ Attorney General and ADOA. ASRS drafts industry standard descriptions of the services that give context to the state issued standard terms. A dispute process is in place for vendors.</p>	<p>Reduce the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Some Likelihood</p>	<p>Future Actions: Management should consider:</p> <ul style="list-style-type: none"> Retaining legal counsel to draft industry standard and appropriate service contract terms/requirements When appropriate, seeking consultation/approval, as required by rule, to modify state-issued uniform terms prior to issuing an RFP. 	
<p>15. Contingency plans are not in place if a major vendor (custodial bank, health insurance vendor, LTD vendor, etc.) fails to fulfill the contract terms (i.e. cannot provide service)</p>	<p>Tolerance: Medium</p>	<p>Impact: Major</p>	<p>Current Controls: Some services are awarded to multiple vendors (building management, external auditors, actuary, and legal services). Contract language contains provisions for minimum notification and performance improvement processes to keep the contract in place while alternate plans are finalized. Statute allows for expeditious, atypical procurement procedures.</p>	<p>Accept the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Not Likely</p>	<p>Future Actions: Management should consider developing processes for back-up plans for major service providers</p>	

Significant Risks and Strategies (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
18. Contracts are not cost effective	Tolerance: Medium	Impact: Moderate	Current Controls: The marketplace for the services for which we contract is active and established with a sufficient number of active vendors (typically). Staff is familiar with the marketplace and is actively engaged in the contracting process which mitigates the likelihood of overpaying for goods/services. A mechanism is in place to request an exception to a state contract if the terms are not cost effective. Contract language, when applicable, limits price escalations and vendor profit. For some major operational services, a benchmarking company provides peer cost comparison insight. Consultants are hired as appropriate for cost analysis.	Reduce the anticipated risk levels
	Controls: Some Vulnerability	Likelihood: Some Likelihood	Future Actions: Management should develop more useful metrics to measure cost effectiveness.	
20. ASRS does not have an effective contract management process in place (who manages contracts after the signing, who measures vendor performance)	Tolerance: High	Impact: Moderate	Current Controls: Business users often assume the role of contract manager. Contracts are typically for one year with one year renewals which creates a built-in review cycle. Contract terms allow ASRS to enforce and assess performance upon renewal.	Reduce the anticipated risk levels
	Controls: Some Vulnerability	Likelihood: Likely	Future Actions: Management should consider: <ul style="list-style-type: none"> • Requiring future contracts to contain performance measures and guarantees • Creating procedures for managing contracts post-signing and for measuring and evaluating vendor performance • If additional Procurement resources are needed to institute these new contract management and vendor evaluation procedures, after clearly defining Procurement staff roles and responsibilities. 	

CONCLUSION: Manageable

Section Two

Agency Contracts and Procurement Risks and Controls

Rankings: IMPACT

Measures the impact should the risk occur

Minor

Indicates a risk occurrence would create no noticeable:

Disruption to normal operations

- Contracts:
 - Contract issues (lacks language specificity, vendor non-performance, etc.) can be resolved by one or two staff without disrupting turnaround times
 - Ample vendor competition exists and contracts allow for non-performing vendors/products to be replaced without an interruption to business
- Issues impact a limited number of individuals (not entire groups or all)

Financial impact

- Budget for current fiscal year can absorb the required changes
- Involves less than \$50,000

Reputation/public image damage

- Trustees not notified
- No inquiries from media or government agencies
- No loss of stakeholder trust/confidence

Moderate

Indicates a risk occurrence could create a modest:

Disruption to normal operations

- Contracts:
 - Contract issues require three to four staff to resolve and/or impact turnaround times for one to three months but a workaround exists to keep business moving
 - Vendor competition is limited and/or contracts are drafted to make replacing a non-performing vendors/products difficult but not impacting strategic objectives
- Issues impact a group

Financial impact

- Budget for current fiscal year can partially absorb the required changes
- Involves <50,000 - \$1 million

Reputation/public image damage

- Trustees notified
- Public statement issued
- Some loss of stakeholder trust/confidence
- Allegation of conflict of interest

Major

Indicates a risk occurrence could create a significant:

Disruption to normal operations

- Contracts:
 - Contract issues require five or more staff to resolve and/or impact turnaround times for more than three months and there is no workaround
 - Vendor competition is non-existent and/or the vendor handles such a significant portion of business that timely replacement of non-performing vendors/products is difficult and impacts achievement of strategic objectives
- Issues impact multiple groups

Financial impact

- Budget for current fiscal year cannot absorb the required changes
- Involves more than \$1 million

Reputation/public image damage

- Trustees actively involved
- Media coverage
- Results in legislation and/or lawsuits that set precedent
- Loss of stakeholder trust/confidence
- Conflict of interest is proven

Rankings: CONTROLS

Strengthen controls to lessen risk

Strong

Indicates the controls in place are strong and will mitigate manageable risk

- Duties and responsibilities are clearly delineated between the Board, Director, ADOA, and vendor(s) (building mgt, custodial bank contract, LTD vendor, etc.)
- Staff engagement with the OAC ensures appropriate oversight regarding contract awards, contract renewals, risk management, and performance (Contracts and Procurement only)
- Goals and objectives are clearly defined and supported by the organizational structure
- Performance is regularly analyzed, measured, reported
- Delegated authority within the Procurement Code is sufficient to meet goals and objectives (Contracts, Procurement)
- Access to legal services is sufficient to meet goals and objectives (Contracts, Procurement)
- The procurement process fosters adequate competition (Contracts, Procurement)
- Procurement and business staff duties, responsibilities adequately defined
- Staff are adequately qualified and trained
- Procurement and business SMEs in place (contract solicitation, administration, evaluation, etc.)
- Rules, policies, procedures, SOPs in place
- Reporting and communication channels established
- IA and/or ADOA-SPO verifies control adequacy on a regular basis
- Staff follows up on audit issues

Some

Vulnerability

Indicates the controls in place have areas of vulnerability that may not, or may not always, mitigate manageable risk

- Missing some elements of strong controls
- External factors may be evolving and creating risk faster than the agency can mitigate
- Constraints on independence and autonomy may impede the agency's ability to mitigate some risks in a timely fashion
- Not all elements of strong governance are in place

Weak

Indicates the controls in place are not adequate to mitigate manageable risk

- Missing many elements of strong controls
- External factors are known to be evolving and creating risk faster than the agency can mitigate
- Constraints on independence and autonomy impede the agency's ability to mitigate some risks in a timely fashion
- Proper governance not in place

Rankings: LIKELIHOOD

Probability that the risk identified would or would not occur

Not Likely

Indicates the risk will probably not occur

- Risk event can usually be controlled
- Strong controls/low tolerance
- No changes expected in the external environment
- Adequate degree of autonomy over contract and procurement decisions

Some Likelihood

Indicates there is some probability the risk will occur

- Risk event cannot always be controlled
- Missing some elements of strong controls/some tolerance
- Changes might occur in the external environment
- Some lack of autonomy over contract and procurement decisions

Likely

Indicates it is probable the risk will occur

- Risk event cannot be controlled
- Missing numerous elements of strong controls/high tolerance
- Changes likely to occur in the external environment
- Significant lack of autonomy over contract and procurement decisions

Risks for Contracts and Procurement

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>1. A purchase is made without a clearly defined business need identified by the appropriate manager</p>	<p>Tolerance: Low</p>	<p>Impact: Moderate</p>	<p>Current Controls: ASRS Procurement staff works with users to develop the scope to ensure needs are clearly identified. ASRS users tend to be SMEs and are familiar with the products and vendors. Procurement staff utilizes prior procurements, peer products, other agencies, etc. to aid in the development of solicitation documents. The agency buyer reviews all requisitions, including office supply purchase orders. Once the agency budget is approved, budget projections per division are entered into the financial management system. Requisitions are entered into financial management system which contains a workflow requiring managers and/or Assistant Directors to approve requests. Executive management receives quarterly reports of upcoming contracts and imprudent requests would be identified. SOPs are in place.</p>	<p>Accept the anticipated risk levels</p>
	<p>Controls: Strong</p>	<p>Likelihood: Not Likely</p>	<p>Future Actions:</p> <ul style="list-style-type: none"> • Internal Audit is auditing in FY 2016. • Management should consider: <ul style="list-style-type: none"> ○ Additional education for submitters to ensure business need is clearly identified and that the correct steps are taken ○ Additional training for approvers 	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>2. There is insufficient Procurement staff to cover workload, ensure adequate separation of duties, internal controls, etc.</p>	<p>Tolerance: Medium</p>	<p>Impact: Moderate</p>	<p>Current Controls: Workload is mostly predictable; contract expirations and larger projects are identified ahead of time. Two ASD managers are in place as trained back-up resources. ASRS users are SMEs and familiar with the products and services. The State Procurement Office (SPO) can be utilized as a back-up resource as needed.</p>	<p>Reduce the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Some Likelihood</p>	<p>Future Actions:</p> <ul style="list-style-type: none"> • Management should consider increasing staff levels. <ul style="list-style-type: none"> ○ Current staff levels limit post-signing contract administration ○ Current administrator is used for procurements rather than focusing on post-signing administration • ASD is evaluating current process roles, responsibilities and controls • In FY 2016 and 2017 IA will be auditing Procurement and service vendor contract fees 	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
3. Procurement staff is not properly trained to perform duties	Tolerance: Low	Impact: Moderate	<p>Current Controls: ASRS Procurement staff complete state-required specific Procurement training and experience to receive delegation. Procurement staff are members of recognized purchasing organizations (state and national). SPO conducts training for ASRS Procurement staff. Training is tracked on an annual basis. Two out of four ASRS Procurement staff have nationally recognized procurement certifications. Compliance reviews are conducted by ADOA SPO every four to five years.</p>	Accept the anticipated risk levels
	Controls: Strong	Likelihood: Not Likely	<p>Future Actions: Having remaining Procurement staff NIGP certified is under consideration</p>	
4. Procedures do not conform to policy, are not current, and/or are not documented properly	Tolerance: Medium	Impact: Minor	<p>Current Controls: The state is responsible for a large portion of the procurement procedures in the form of state statute, AZ Procurement Code, standard procedures, etc. The ASRS has agency-specific SOPs in place on the intranet which are updated as needed. The ASRS has a fraud hotline and ADOA-SPO has a compliance hotline.</p>	Accept the anticipated risk levels
	Controls: Strong	Likelihood: Not Likely	<p>Future Actions: Management will be conducting an annual review for SOPs.</p>	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>5. ASRS procurements do not conform to applicable rules, statutes, and policies (APC) related to public procurement</p>	<p>Tolerance: Low</p>	<p>Impact: Moderate</p>	<p>Current Controls: ADOA SPO acts as the regulatory authority for state procurements and they have the authority to purchase for the state and delegate certain authority to agencies at their discretion. ADOA SPO issues technical bulletins regarding procurement rules and regulations which are on a constant review cycle. Two out of four ASRS Procurement staff have nationally recognized procurement certifications. The ADOA SPO website contains all rules, policies, and statutes related to procurement. ADOA SPO conducts training for ASRS procurement staff. All procurements have two dedicated staff members from Procurement: a lead and a second. The state has an electronic procurement system which automates certain aspects of contract procurements (bids will not be accepted after the cut-off time, approval workflow, etc.) Compliance reviews are conducted by ADOA SPO every four to five years. An alternative method has been approved by ADOA SPO to procure investment management services and outside consulting services are used to perform due diligence; additionally policies are in place for selection and monitoring performance. The ASRS has a fraud hotline and ADOA-SPO has a compliance hotline.</p>	<p>Accept the anticipated risk levels</p>
	<p>Controls: Strong</p>	<p>Likelihood: Not Likely</p>	<p>Future Actions:</p> <ul style="list-style-type: none"> • ADOA SPO is continuing to develop educational opportunities including developing a state certification program. • ADOA is continuing to update their standard procedures, technical bulletins, etc. 	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
6. Following rules, statutes and policies is not conducive to an effective operating cost structure and consistent high performance (too restrictive, limited SME availability, etc.)	Tolerance: Medium	Impact: Minor	Current Controls: The statutes allow for exceptions in specific cases which ASRS utilizes when appropriate. The agency practice is to combine similar services when possible if supported by analysis (e.g., investment consulting services for “public markets” instead of specific to one portfolio/asset allocation category).	Accept the anticipated risk levels
	Controls: Some Vulnerability	Likelihood: Some Likelihood	Future Actions: No additional actions	
7. ASRS procurements do not follow national best practices	Tolerance: Medium	Impact: Minor	Current Controls: ADOA SPO directs ASRS activities. ADOA SPO has adopted the practices of National Institute of Governmental Purchasing (NIGP).	Evaluate the anticipated risk levels
	Controls: Some Vulnerability	Likelihood: Some Likelihood	Future Actions: As workload and staffing permit, Procurement staff will: <ul style="list-style-type: none"> Research public pension plan procurement best practices (if any) Establish a method to determine if ASRS is utilizing those best practices. 	
8. Procurement staff and/or business user roles and responsibilities are not properly defined and carried out	Tolerance: Medium	Impact: Moderate	Current Controls: Policies and procedures are in place to define roles during the procurement process. During a solicitation, the roles and responsibilities are clearly defined for all participants by ASRS Procurement staff.	Reduce the anticipated risk levels
	Controls: Some Vulnerability	Likelihood: Some Likelihood	Future Actions: Management is changing how contracts are managed post-signing to further define internal roles.	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>9. SMEs are unavailable and/or decline to assist with procurements (not enough SMEs, will not participate due to employment limitations, etc.)</p>	<p>Tolerance: Low</p>	<p>Impact: Moderate</p>	<p>Current Controls: The practice is that SMEs work on solicitations. Management and Procurement staff work together to identify SMEs. If needed, outside experts can be consulted.</p>	<p>Accept the anticipated risk levels</p>
	<p>Controls: Strong</p>	<p>Likelihood: Not Likely</p>	<p>Future Actions: Internal Audit will be conducting an audit of Procurement in FY 2017.</p>	
<p>10. Procurement participants have a conflict of interest (biased for/against vendors, previous employment link, family ties, etc.) and do not disclose that conflict</p>	<p>Tolerance: Medium</p>	<p>Impact: Major</p>	<p>Current Controls: Agency procurements follow current state requirements. Staff selected to participate in a significant procurement role are requested to disclose any relationship with possible vendors and informed of future employment limitations as a result of the procurement participation. Participants are required to disclose any conflict of interest in writing. Staff with a conflict is excluded from the process. Evaluation Committees are typically comprised of three or more participants. Multiple levels of review are in place. Staff signs a Code of Conduct annually. The ASRS has a fraud hotline and ADOA-SPO has a compliance hotline.</p>	<p>Evaluate the anticipated risk levels</p> <p>Management recommends IA include this risk in their FY 2017 audit</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Some Likelihood</p>	<p>Future Actions: Management is recommending that Internal Audit evaluate whether additional measures should be implemented because the ASRS has no mechanism to determine if the self-disclosure method is accurate and/or adequate (11/2/15 ERMC decision).</p>	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
11. Limited vendor choices and/or lack of responses negatively impacts procurements	Tolerance: Medium	Impact: Moderate	<p>Current Controls: Utilization of ProcureAZ maximizes exposure to all registered vendors. Advertisements for vendors are published in industry periodicals. ASRS belongs to multiple professional and industry-related organizations which improves reach for vendor choices.</p>	Evaluate the anticipated risk levels
	Controls: Some Vulnerability	Likelihood: Some Likelihood	<p>Future Actions: Additional research in the Long Term Disability industry is ongoing.</p>	
12. RFPs and contracts terms are not clear resulting in requirements not being filled, prolonged negotiations, and/or contract disputes post-signing (performance, service, deliverables, etc.)	Tolerance: Low	Impact: Moderate	<p>Current Controls: ASRS Procurement staff works with users to develop the scope to ensure needs are clearly identified. ASRS users tend to be SMEs and familiar with the products and vendors. Procurement staff utilize prior procurements, peer products, other agencies, etc. Contract terms are largely standardized and were created by AZ Attorney General and ADOA. ASRS drafts industry standard descriptions of the services that give context to the state issued standard terms. A dispute process is in place for vendors.</p>	Reduce the anticipated risk levels
	Controls: Some Vulnerability	Likelihood: Some Likelihood	<p>Future Actions: Management should consider:</p> <ul style="list-style-type: none"> Retaining legal counsel to draft industry standard and appropriate service contract terms/requirements When appropriate, seeking consultation/approval, as required by rule, to modify state-issued uniform terms prior to issuing an RFP. 	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>13. Procurement staff do not adequately communicate procurement status to staff, management and interested parties</p>	<p>Tolerance: Medium</p>	<p>Impact: Minor</p>	<p>Current Controls: The Lead Procurement staff communicates on a regular basis to interested parties; the frequency and method depend on the requestor. Managers receive verbal procurement updates at the quarterly Management Meeting. Executive management receives quarterly reports of upcoming contracts, renewals, expirations, etc.</p>	<p>Accept the anticipated risk levels</p>
	<p>Controls: Strong</p>	<p>Likelihood: Not Likely</p>	<p>Future Actions: ASRS CPO will investigate to ensure a proper communication channel with ADOA is established for statewide (ADOA Procurement) contracts</p>	
<p>14. Due diligence for major vendors (custodial bank, health insurance vendor, LTD vendor, etc.) is not conducted (reviewing hiring practices, financial condition, security practices, COOP, reference checks, etc.)</p>	<p>Tolerance: Medium</p>	<p>Impact: Moderate</p>	<p>Current Controls: Through the solicitation process, a vendor provides requested policies and procedures and describes approaches to major service functions. For some vendors, the ASRS requires they submit an annual management letter (formerly SAS 70) for review by dedicated ASRS staff. If appropriate, ASRS will request potential vendors provide financial statements. Contract language specifies ASRS has audit rights and that the vendor must comply with all applicable security, privacy, and hiring practices. Vendor insurance requirements are monitored and maintained by an external tracking service. E-verify requirements are monitored by SPO through quarterly random contractor selection and ASRS submitted reports. The ASRS has a fraud hotline and ADOA-SPO has a compliance hotline.</p>	<p>Accept the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Some Likelihood</p>	<p>Future Actions: Management should consider:</p> <ul style="list-style-type: none"> • Adopting procedures to ensure 'contract obligations' like hiring and security practices are actually met • Developing a protocol for TSD involvement for security assessments during the contract period and/or for renewals 	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>15. Contingency plans are not in place if a major vendor (custodial bank, health insurance vendor, LTD vendor, etc.) fails to fulfill the contract terms (i.e. cannot provide service)</p>	<p>Tolerance: Medium</p>	<p>Impact: Major</p>	<p>Current Controls: Some services are awarded to multiple vendors (building management, external auditors, actuary, and legal services). Contract language contains provisions for minimum notification and performance improvement processes to keep the contract in place while alternate plans are finalized. Statute allows for expeditious, atypical procurement procedures.</p>	<p>Accept the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Not Likely</p>	<p>Future Actions: Management should consider developing processes for back-up plans for major service providers.</p>	
<p>16. Legal does not review and/or negotiate all contracts resulting in major mistakes/oversights</p>	<p>Tolerance: Medium</p>	<p>Impact: Moderate</p>	<p>Current Controls: Contracts contain some template language that was drafted by the AZ Attorney General's Office. The on-site Assistant Attorney General reviews modifications to the template language. ASRS can seek approval from the AZ Attorney General's Office to consult outside legal counsel if needed. Contracts can be amended if mistakes are identified. Contract language permits ASRS to terminate contracts at our convenience. Multiple, non-legal reviews of contracts by SMEs are in place. All investment contracts are negotiated by an external legal consultant as well as staff.</p>	<p>Evaluate the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Not Likely</p>	<p>Future Actions: Management will consider:</p> <ul style="list-style-type: none"> • If a legal review of all contracts should be conducted. • Developing a procedure for legal counsel to be consulted during the negotiation process. 	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
17. Contracts are not available to staff requiring the contract information resulting in information bottlenecks	Tolerance: High	Impact: Minor	<p>Current Controls: Contracts are stored in electronic form and are available to interested parties upon request or through ProcureAZ. Posting dates/time frames are tracked. A list of contracts ASRS has/utilizes, along with key dates, is listed on IQ for quick reference. The IQ list is updated timely.</p>	Accept the anticipated risk levels
	Controls: Some Vulnerability	Likelihood: Some Likelihood	<p>Future Actions: Management should consider:</p> <ul style="list-style-type: none"> If any changes are needed to the strategic objectives because IA removed their recommendation not to post contracts on IQ Aligning with ADOA SPO's strategic objective of having contracts on ProcureAZ within 3 business days of signing. 	
18. Contracts are not cost effective	Tolerance: Medium	Impact: Moderate	<p>Current Controls: The marketplace for the services for which we contract is active and established with a sufficient number of active vendors (typically). Staff is familiar with the marketplace and is actively engaged in the contracting process which mitigates the likelihood of overpaying for goods/services. A mechanism is in place to request an exception to a state contract if the terms are not cost effective. Contract language, when applicable, limits price escalations and vendor profit. For some major operational services, a benchmarking company provides peer cost comparison insight. Consultants are hired as appropriate for cost analysis.</p>	Reduce the anticipated risk levels
	Controls: Some Vulnerability	Likelihood: Some Likelihood	<p>Future Actions: Management should develop more useful metrics to measure cost effectiveness.</p>	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>19. ASRS contract requirements are not industry standard which negatively impacts vendor selection and cost</p>	<p>Tolerance: Medium</p>	<p>Impact: Moderate</p>	<p>Current Controls: ASRS users tend to be SMEs and familiar with the industry/vendors. One-year contracts allow for ASRS/vendor review before renewals and contracts can be amended. Maximum contract length requires re-soliciting every 5 years (typically) and significant industry changes are considered when creating the new RFP. When necessary, Procurement staff conducts formal requests for information or market research for major services at regular intervals prior to issuing a new RFP.</p>	<p>Accept the anticipated risk levels</p>
	<p>Controls: Strong</p>	<p>Likelihood: Some Likelihood</p>	<p>Future Actions: No additional actions planned.</p>	
<p>20. ASRS does not have an effective contract management process in place (who manages contracts after the signing, who measures vendor performance)</p>	<p>Tolerance: High</p>	<p>Impact: Moderate</p>	<p>Current Controls: Business users often assume the role of contract manager. Contracts are typically for one year with one year renewals which creates a built-in review cycle. Contract terms allow ASRS to enforce and assess performance upon renewal.</p>	<p>Reduce the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Likely</p>	<p>Future Actions: Management should consider:</p> <ul style="list-style-type: none"> • Requiring future contracts to contain performance measures and guarantees. • Creating procedures for managing contracts post-signing and for measuring and evaluating vendor performance and cost • If additional Procurement resources are needed to institute these new contract management and vendor evaluation procedures, after clearly defining Procurement staff roles and responsibilities 	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
<p>21. Staff and/or vendors are not satisfied with the Procurement process and/or contract management, with the goods/services procured (poor quality, not timely, etc.)</p>	<p>Tolerance: Low</p>	<p>Impact: Moderate</p>	<p>Current Controls: The procurement process is detailed in statute and followed by staff. Procurement staff are experienced and knowledgeable about many of the goods and services purchased and work collaboratively with staff during the requisition process. Procurement staff are available to staff and contracts typically contain specifications and warranties for remedy for cases of non-satisfaction. Open lines of communication are encouraged and vendors have ample opportunities to express concerns.</p>	<p>Accept the anticipated risk levels</p>
	<p>Controls: Strong</p>	<p>Likelihood: Not Likely</p>	<p>Future Actions: Management should consider developing satisfaction surveys for both ASRS staff and vendors.</p>	
<p>22. Strategic objectives are not clearly defined for the Procurement area</p>	<p>Tolerance: Medium</p>	<p>Impact: Minor</p>	<p>Current Controls: Operational Goals and Objectives in the Strategic Plan can be modified by the business. Periodic reviews of objectives are conducted and objectives are updated as needed.</p>	<p>Accept the anticipated risk levels</p>
	<p>Controls: Some Vulnerability</p>	<p>Likelihood: Some Likelihood</p>	<p>Future Actions: Management should consider developing new strategic objectives for this area and review/align with procurement industry/statewide best practices.</p>	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
23. Performance for the Procurement team is not regularly measured for procurements	Tolerance: Medium	Impact: Minor	<p>Current Controls:</p> <p>A contract spreadsheet is maintained to track and monitor milestone dates for major contracted services/products functions (contract expiration, contract solicitation start dates, etc.) This spreadsheet captures performance measures for only the formal acquisition/contracting function of procurement. Updates are provided to executive management, at minimum quarterly. IA and SPO conduct periodic audits.</p>	Evaluate the anticipated risk levels
	Controls: Some Vulnerability	Likelihood: Some Likelihood	<p>Future Actions:</p> <p>Management should consider:</p> <ul style="list-style-type: none"> Clearly defining the Procurement roles and the metrics to measure and review/align with procurement industry/statewide best practices. Reviewing and aligning with ADOA SPO objectives. 	
24. Unauthorized access to procurement materials leads to serious consequences (loss of confidential data, damages from a respondent, compromised negotiation, etc.)	Tolerance: Low	Impact: Moderate	<p>Current Controls:</p> <p>Physical security to procurement areas limits access; elevators and doors are card access only and all procurement offices have locked doors and/or locked cabinets to securely store confidential documents. System controls are in place to prevent unauthorized access. Responses are available electronically and staff are encouraged not to use paper copies. Staff are trained and certified by national procurement organizations. The ASRS has a fraud hotline and ADOA-SPO has a compliance hotline.</p>	Accept the anticipated risk levels
	Controls: Strong	Likelihood: Not Likely	<p>Future Actions:</p> <p>Management should consider implementing any additional measures identified when the Physical Security risk assessment is completed.</p>	

Risks for Contracts and Procurement (continued)

Risk/Threat	Risk Rankings		Control Evaluation as of December 2015	Management Strategy for risk and Internal Audit
25. Contracts are inappropriately split to avoid contract limitations in an effort to avoid formal solicitations/proper authorizations	Tolerance: Low	Impact: Moderate	<p>Current Controls: Limitations are established in statute. Delegations are established by SPO. More than one person is involved with each contract. Quarterly updates are provided to executive management. All contracts are listed electronically for the public. IA and SPO conduct periodic audits. The ASRS has a fraud hotline and ADOA-SPO has a compliance hotline.</p>	<p>Accept the anticipated risk levels</p>
	Controls: Strong	Likelihood: Not Likely	<p>Future Actions: No additional actions planned</p>	

Appendix A

Enterprise Risk Management Process

Enterprise Risk Management

- **Enterprise Risk Management (ERM) Committee:**
 - Led by the Deputy Director and comprised of Senior Managers
 - Under the oversight of the OAC
 - Communicates activities and findings to the Director
 - Works collaboratively with Internal Audit
 - Produces risk assessments and control strategies
- **Risk:** Any event that impacts, impedes, or interferes with the agency's ability to achieve its strategic priorities, goals, and objectives
- Risk management process conducted in accordance with principles espoused by the Committee of Sponsoring Organizations (COSO)

"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

COSO Components of ERM

- **Control Environment** (Board, Executive and Senior Management set tone, philosophy, risk appetite)
- **Risk Assessment** (Iterative process for identifying/analyzing risks to achieving goals/objectives and determining how risks should be managed)
- **Control Activities** (Actions established to ensure risk mitigation)
- **Information and Communication** (Enables the Board, management, staff, and other stakeholders to understand internal control responsibilities and day-to-day control activities)
- **Monitoring** (Ongoing evaluations to ensure internal control components are present and functioning)

Risk Assessment Steps

- The risk assessment document groups major functions according to the agency's strategic plan
- Workgroups [comprised of Senior Managers and subject matter experts (SMEs)]:
 - Identify risks to achieving the strategic goals and objectives
 - Rank the risks and controls using a heat chart
 - Identify current risk control strategies
 - Identify control strategies under development/consideration
- ERM Committee:
 - Establishes the control environment, including the general internal control structure, tolerance levels, and risk parameters (impacts, likelihood)
 - Reviews the findings of SME workgroups; identifies control gaps
 - Ensures risk mitigation responsibilities and strategies are clearly identified
 - Monitors administration and progress
- Director and OAC receive periodic updates from the ERM Committee

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

**ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS**

CITY OF DOUGLAS

DECEMBER 17, 2015

The audit of City of Douglas was completed on December 17, 2015 for the period July 1, 2012 through June 30, 2015.

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

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

SUMMARY OF FINDINGS:

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

1. City of Douglas did not:

- **Remit ASRS contributions for one employee who was engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years.**
- **Remit ASRS contributions on all eligible compensation for 17 employees.**

2. City of Douglas did not remit the Alternate Contribution Rate (ACR) for one retiree who had returned to work.

3. City of Douglas did not ensure that all retirees returning to work under A.R.S. §§ 38-766.01 and 38-766.02 complied with the requirement that they acknowledge the provisions of the statute in writing.

4. The City of Douglas did not report all demographic information for its members.

BACKGROUND

City of Douglas joined the ASRS on July 1, 1956 by executing an Application and Social Security 218 Agreement. City of Douglas currently has approximately 130 employees contributing to the ASRS.

DESCRIPTION OF AUDIT WORK PERFORMED

The audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2012 through June 30, 2015. The auditor reviewed pertinent documentation and interviewed City of Douglas personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and

ARIZONA STATE RETIREMENT SYSTEM
CITY OF DOUGLAS
DECEMBER 17, 2015

remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

- Review of the employer payroll records and related ASRS reports.
- Review of employees' time sheets and payroll records to determine eligibility.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.
- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.
- Determine compliance with A.R.S. §38-749 (D) (1) to determine whether eligible compensation is increased for benefit calculation purposes.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

AUDITOR COMMENTS:

City of Douglas personnel were cooperative, informative and helpful in promptly providing fiscal year 2013 through 2015 time reports, payroll records, and other information necessary to effectively complete the ASRS audit. Audit findings and recommendations were discussed and issues resolved in a timely manner.

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

**ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS**

CITY OF DOUGLAS

FINDINGS AND RECOMMENDATIONS

DECEMBER 17, 2015

ARIZONA STATE RETIREMENT SYSTEM
CITY OF DOUGLAS
RECOMMENDATIONS

FINDING 1:

City of Douglas did not:

- **Remit ASRS contributions for one employee who was engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years.**
- **Remit ASRS contributions on all eligible compensation for 17 employees.**

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

One employee of the City worked at least 20 hours per week for 20 or more weeks during the fiscal year without paying contributions when he first became eligible and through the end of the fiscal year. The employee should have been participating in the ASRS when he was engaged to work these hours, and no later than the period when they actually reached the twentieth week of working 20 or more hours.

Seventeen employees did not have contributions withheld and remitted on all eligible compensation. In one case, the employee worked two separate positions, but ASRS contributions were only withheld on one position. Other members had a delay of one or more pay periods from the time when contributions should have started until they actually were withheld and remitted. In another case, contributions were discontinued because the employee reduced hours or changed to another position. ASRS eligibility is based on the number of hours engaged to work per week by an employee rather than the position occupied. Employees who become eligible generally remain eligible until the end of the fiscal year.

Retirement and LTD contributions will be due to the ASRS on the eligible compensation as calculated from time and pay records of the noncontributing or under-contributing employees. The ASRS Financial Services Division will generate invoices for the employees for their portion after payment is made by the City.

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

Total Unreported Eligible Gross Earnings	<u>\$37,472</u>
Member Contributions	4,312
Employer Contributions	4,312
Estimated Interest Due	790
Total Estimated Due ASRS	\$ <u>9,414</u>

Recommendations:

1. The employer should notify each eligible employee when there is a change in eligibility status. ASRS contributions should be withheld from an employee’s earnings when an employee is engaged to work at least 20 weeks in each fiscal year and at least 20 hours per week (20/20 eligibility criteria) or when his or her status changes

ARIZONA STATE RETIREMENT SYSTEM
CITY OF DOUGLAS
RECOMMENDATIONS

and he or she is reasonably expected to do so. For those employees who work irregularly from one week to the next, contributions should be withheld no later than the beginning of the twentieth week of working 20 or more hours.

2. The employer should have all eligible noncontributing employees complete ASRS online enrollment and beneficiary forms, if applicable, so that contributions will be properly processed.
3. The employer should not change employees from eligible to ineligible until the end of the fiscal year. An eligible employee generally does not become ineligible during a fiscal year.
4. The employer should remit the employer retirement contributions, LTD contributions and interest, as calculated and billed.
5. The employer should distribute to the employees the invoices that will be generated for the employees' retirement and LTD contributions.

Employer Response:

The City of Douglas provides employees with a copy of a change of status to affected employees. We will ensure that contributions to ASRS for qualified employees that work irregularly from one week to the next happens no later than at the beginning of the twentieth week. If for some reason the contributions are not submitted at the twentieth week, we will make sure to go back and submit for the correct week.

The City will remit the employer amount owed to ASRS as soon as it is received and will distribute to employees the invoices that will be generated.

FINDING 2:

City of Douglas did not remit the Alternate Contribution Rate (ACR) for one retiree who had returned to work.

A.R.S. § 38-766.02 requires that an employer "shall pay contributions at an alternate contribution rate on behalf of a retired member who returns to work in any capacity in a position ordinarily filled by an employee of the employer. The City reported compensation and paid ACR for eight retirees. However, another retiree was found who had earnings in fiscal years 2014 and 2015 and nothing was reported for the ACR.

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

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

ARIZONA STATE RETIREMENT SYSTEM
CITY OF DOUGLAS
RECOMMENDATIONS

Total Retirees' Unreported Gross Earnings	<u>\$370</u>
Employer ACR Contributions	<u>35</u>
Estimated Interest Due	<u>5</u>
Total Estimated Due ASRS	<u>\$40</u>

Recommendations:

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

Employer Response:

The ACR for the retiree is scheduled to be paid on 12/22/15 through the online system. An automatic deduction is added to returning retirees and will continue to do so.

FINDING 3:

City of Douglas did not ensure that all retirees returning to work under A.R.S. §§ 38-766.01 and 38-766.02 complied with the requirement that they acknowledge the provisions of the statute in writing.

A.R.S. § 38-766.01 provides the guidelines for retirees who wish to return to work without suspension of benefits. The A.R.S. § 38-766.01(C) states "the retired member shall acknowledge this section in writing and file the acknowledgement with the employer within thirty days of returning to work."

ASRS requires that employers provide a copy of this acknowledgement to the ASRS. A.R.S. § 38-766.02(E) states, "an employer of a retired member shall submit any reports, data, paperwork or materials that are requested by ASRS."

At the beginning of field work, the City had written documentation for some, but not all, of its retirees who had returned to work. Ten retirees were working after retirement in direct employment. Four of these did not have proper written documentation at the beginning of field work, but the City had all four retired members complete proper forms before the end of field work.

Recommendation:

The City should ensure that all retirees returning to work in direct employment acknowledge in writing all the provisions of A.R.S. § 38-766.01 within 30 days of returning to work.

Employer Response:

A question has been added to the initial payroll packet all new employees must fill out inquiring if they are ASRS retirees. If they are, we will ensure they fill out the appropriate forms and acknowledgements.

ARIZONA STATE RETIREMENT SYSTEM
CITY OF DOUGLAS
RECOMMENDATIONS

FINDING 4:

The City of Douglas did not report all demographic information for its members.

A.R.S. § 38-715 establishes the requirements to maintain the books and processing records of ASRS. A.R.S. § 38-737 says that employer contributions will be determined by the ASRS actuary every year. The actuary requires full demographic information in order to make an accurate calculation of the contribution rate.

The City reported contributions for 131 members in fiscal year 2015, most of whom had all required demographic information. At the beginning of the audit the City was informed that it had seven employees who were missing one or more of the following items of demographic information: date of birth, marital code, gender or address. The City supplied the missing information by the end of the next business day.

Recommendation:

The City should continue to ensure that all eligible members complete online enrollment prior to submitting contributions so that this information will be collected for all new employees.

Employer Response:

The City will continue to ensure that all eligible members complete the online enrollment forms prior to submitting contributions.

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

**ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS**

GILA BEND UNIFIED SCHOOL DISTRICT

JANUARY 8, 2016

ARIZONA STATE RETIREMENT SYSTEM
GILA BEND UNIFIED SCHOOL DISTRICT
JANUARY 8, 2016

The audit of Unified School District was completed on January 8, 2016 for the period July 1, 2014 through June 30, 2015.

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

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

SUMMARY OF FINDINGS:

Based on the results of the work performed to meet the above audit objectives, the following statements summarize the findings presented to Gila Bend Unified School District:

- 1. Gila Bend Unified School District did not remit ASRS contributions for five employees who were engaged to work at least 20 hours per week for at least 20 weeks in a fiscal year.**
- 2. Gila Bend Unified School District did not remit all of the Alternate Contribution Rate (ACR) for all its retirees who have returned to work.**
- 3. Gila Bend Unified School District did not request a refund for one member who remitted contributions on ineligible termination payments.**
- 4. The Gila Bend Unified School District did not report all demographic information for its members.**

BACKGROUND

Gila Bend Unified School District joined the ASRS on July 1, 1964 by executing an Application and Social Security 218 Agreement. Gila Bend Unified School District currently has approximately 70 employees contributing to the ASRS.

DESCRIPTION OF AUDIT WORK PERFORMED

The audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2014 to June 30, 2015. The auditor reviewed pertinent documentation and interviewed Gila Bend Unified School District personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

ARIZONA STATE RETIREMENT SYSTEM
GILA BEND UNIFIED SCHOOL DISTRICT
JANUARY 8, 2016

- Review of the employer payroll records and related ASRS reports.
- Review of employees' time sheets and payroll records to determine eligibility.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.
- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.
- Determine compliance with A.R.S. §38-749 (D) (1) to determine whether eligible compensation is increased for benefit calculation purposes.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

AUDITOR COMMENTS:

Gila Bend Unified School District personnel were cooperative, informative and helpful in providing FY 2015 time reports, payroll records, and other information necessary to effectively complete the ASRS audit. Audit findings and recommendations were discussed and issues resolved in a timely manner.

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

GILA BEND UNIFIED SCHOOL DISTRICT

FINDINGS AND RECOMMENDATIONS

JANUARY 8, 2016

ARIZONA STATE RETIREMENT SYSTEM
GILA BEND UNIFIED SCHOOL DISTRICT
RECOMMENDATIONS

FINDING 1:

Gila Bend Unified School District did not remit ASRS contributions for five employees who were engaged to work at least 20 hours per week for at least 20 weeks in a fiscal year.

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

The District had 72 contributing employees in the fiscal year. Five employees of the District worked at least 20 hours per week for 20 or more weeks during the fiscal year without paying contributions when they first became eligible and through the end of the fiscal year. One of the employees was engaged to work 20/20 near the beginning of the fiscal year. The other employees worked irregularly, but reached 20/20. These employees should have been participating in the ASRS when they were engaged to work these hours, but no later than the period when they actually reached the twentieth week of working 20 or more hours.

Retirement and LTD contributions will be due to the ASRS on the eligible compensation as calculated from time and pay records of the noncontributing or under-contributing employees. The ASRS Financial Services Department will generate invoices for the employees for their portion after payment is made by the District.

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

Total Unreported Eligible Gross Earnings	\$35,538
Member Contributions	4,122
Employer Contributions	4,122
Estimated Interest Due	347
Total Estimated Due ASRS	<u>\$8,591</u>

Recommendations:

1. The employer should notify each eligible employee when there is a change in eligibility status. ASRS contributions should be withheld from employee’s earnings when an employee is engaged to work at least 20 weeks in each fiscal year and at least 20 hours per week (20/20 eligibility criteria) or when his or her status changes and he or she is reasonably expected to do so. For those employees who work irregularly from one week to the next, contributions should be withheld no later than the beginning of the twentieth week of working 20 or more hours.
2. The employer should have all eligible noncontributing employees complete ASRS online enrollment and beneficiary forms, if applicable, so that contributions will be properly processed.

ARIZONA STATE RETIREMENT SYSTEM
GILA BEND UNIFIED SCHOOL DISTRICT
RECOMMENDATIONS

3. The employer should not change employees from eligible to ineligible until the end of the fiscal year. An eligible employee generally does not become ineligible during a fiscal year.
4. The employer should remit the employer retirement contributions, LTD contributions and interest, as calculated and billed.
5. The employer should distribute to the employees the invoices that will be generated for the employees' retirement and LTD contributions.

Employer Response:

Extreme due diligence will be implemented to ensure this situation does not happen again. Employees have been notified and the process has begun to remit missing contributions. Employer will work closely with ASRS rep to ensure corrections.

FINDING 2:

Gila Bend Unified School District did not remit all of the Alternate Contribution Rate (ACR) for all its retirees who have returned to work.

A.R.S. § 38-766.02 requires that an employer "shall pay contributions at an alternate contribution rate on behalf of a retired member who returns to work in any capacity in a position ordinarily filled by an employee of the employer". Two retirees at the District were subject to the ACR. However, one of the retirees had only part of his earnings in fiscal year 2015 reported for the ACR.

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

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

Total Retirees' Unreported Gross Earnings	<u>\$2,400</u>
Employer ACR Contributions	230
Estimated Interest Due	30
Total Estimated Due ASRS	<u>\$ 260</u>

Recommendations:

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

Employer Response:

Employer will ensure all ACR contributions are remitted in a timely manner. The owing contributions will be remitted as soon as possible, and guidance from our ASRS Rep will once again be used.

ARIZONA STATE RETIREMENT SYSTEM
GILA BEND UNIFIED SCHOOL DISTRICT
RECOMMENDATIONS

FINDING 3:

Gila Bend Unified School District did not request a refund for one member who remitted contributions on ineligible termination payments.

The District reported ineligible compensation, in this case termination payments, for one of its 72 reported members.

A.R.S. § 38-738(A) provides for a refund of ineligible earnings. "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 if the employer requests return of the contributions within one year after the date of overpayments."

A.R.S. § 38-711(7)(a) defines compensation as excluding "lump sum payments, on termination of employment, for accumulated vacation or annual leave, sick leave, compensatory time or any other form of termination pay." The payments for sick leave and vacation days paid in connection with termination are not eligible to be included in ASRS reported compensation.

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

Total Ineligible Gross Earnings	<u>\$11,740</u>
Ineligible Member Pension Contributions	1,348
Ineligible Member LTD Contributions	14
Ineligible Employer Pension Contributions	1,348
Ineligible Employer LTD Contributions	14
Total Estimated to be Credited to Employer	<u>\$ 2,724</u>

Recommendation:

The employer should not include ineligible termination payments in compensation reported to the ASRS. ASRS members who commenced membership before January 1, 1984 and who would be eligible to have termination payments included should inform their employers of their eligibility.

Employer Response:

Employer will ensure all termination payouts are handled according to statute. Money owed to employee will be requested and refunded.

FINDING 4:

The Gila Bend Unified School District did not report all demographic information for its members.

A.R.S. § 38-715 establishes the requirements to maintain the books and processing records of ASRS. A.R.S. § 38-737 says that employer contributions will be determined by the ASRS actuary every year. The actuary requires full demographic information in order to make an accurate calculation of the contribution rate.

ARIZONA STATE RETIREMENT SYSTEM
GILA BEND UNIFIED SCHOOL DISTRICT
RECOMMENDATIONS

The District reported contributions for 72 members in fiscal year 2015, most of whom had all required demographic information. At the beginning of the audit the District was informed that it had five employees who were missing one or more of the following items of demographic information: date of birth, marital code, gender or address. The District supplied the missing information within a week.

Recommendation:

The District should continue to ensure that all eligible members complete online enrollment prior to submitting contributions so that this information will be collected for all new employees.

Employer Response:

Corrections/additions for all missing demographics were submitted. This will not occur again on future enrollments as the on-line enrollment system for new employees does not allow continuation until all data is entered correctly.

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

PEORIA UNIFIED SCHOOL DISTRICT

NOVEMBER 25, 2015

ARIZONA STATE RETIREMENT SYSTEM
PEORIA UNIFIED SCHOOL DISTRICT
NOVEMBER, 2015

The audit of Peoria Unified School District was completed on November 25, 2015, for the period July 1, 2013 through June 30, 2014.

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

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

SUMMARY OF FINDINGS:

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

Peoria Unified School District:

- **Did not remit timely contributions for 33 eligible employees in the fiscal year 2014.**
- **Did not request contributions refund for three employees in the fiscal year 2014.**
- **Did not report full demographic information for 530 employees.**

BACKGROUND

Peoria Unified School District joined the ASRS January 1, 1951 by executing an Application and Social Security 218 Agreement. Peoria Unified School District has approximately 6,500 employees contributing to the ASRS.

DESCRIPTION OF AUDIT WORK PERFORMED

The audit work performed during this engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2013 through June 30, 2014. The auditor reserves the right to expand the scope of the audit when circumstances dictate discrepancies with ASRS statutes or federal laws. The auditor reviewed pertinent documentation and interviewed personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

- Review of the employer payroll records and related ASRS reports.

ARIZONA STATE RETIREMENT SYSTEM
PEORIA UNIFIED SCHOOL DISTRICT
NOVEMBER, 2015

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

AUDITOR COMMENTS:

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

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

PEORIA UNIFIED SCHOOL DISTRICT

FINDINGS AND RECOMMENDATIONS

NOVEMBER 25, 2015

ARIZONA STATE RETIREMENT SYSTEM
PEORIA UNIFIED SCHOOL DISTRICT
RECOMMENDATIONS

FINDING 1:

Peoria Unified School District did not remit timely contributions for 33 eligible employees in the fiscal year 2014.

A.R.S. Title 38, Chapter 5, Article 1, 2, and 2.1, Subsections 38-711 (23), 38-721, and 38-736 address the ASRS 20/20 membership eligibility criteria, compensation paid to employees, and the employer's reporting of required contributions due to the ASRS.

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

Total Gross Earnings	<u>\$74,354</u>
Member Contributions	8,581
Employer Contributions	8,581
Interest Due	1,994
Total Due the ASRS	<u>\$19,156</u>

Recommendations:

1. Peoria Unified School District should improve its internal process to identify employees whose work hours and weeks meet the ASRS 20/20 membership eligibility criteria and remit contributions to the ASRS in a timely manner.
2. Peoria Unified School District should ensure the completion of eligible employee and beneficiary enrollment at the ASRS.

Employer Response:

The district management agreed on the finding.

FINDING 2:

Peoria Unified School District did not request contributions refund for three employees in the fiscal year 2014.

A.R.S. § 38-738 paragraph (A) provides for a refund of ineligible earnings. "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 if the employer requests return of the contributions within one year after the date of overpayments."

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

Total Gross Earnings	<u>\$2,133</u>
Member Contributions	251
Employer Contributions	251
Total Credit Due	<u>\$502</u>

ARIZONA STATE RETIREMENT SYSTEM
PEORIA UNIFIED SCHOOL DISTRICT
RECOMMENDATIONS

Recommendations:

1. Peoria Unified School District should contact its contributions accounting representative at ASRS to make arrangements to take this available credit.
2. ASRS contributions should not be withheld from part-time employees' earnings when an employee is not engaged to work at least 20 weeks in each fiscal year and at least 20 hours per week (20/20 membership criteria). For those employees who work irregularly from one week to the next, contributions should not be withheld until the beginning of the 20th week of working 20 or more hours.

Employer Response:

The district management agreed on the finding.

FINDING 3:

Peoria Unified School District did not report full demographic information for 530 employees.

A.R.S. § 38-715 establishes the requirements to maintain the books and processing records of ASRS. A.R.S. § 38-737 states that employer contributions will be determined by the ASRS actuary every year. The ASRS actuary requires full demographic information in order to make an accurate calculation of the contribution rate.

Recommendation:

1. Peoria Unified School District should continue to ensure that all eligible members complete online enrollment prior to submitting contributions in order for the ASRS to have full demographic information.

Employer Response:

The district management agreed on the finding and already provided the full demographic information required to the ASRS.

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

**ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS**

SUN CITY FIRE DISTRICT

NOVEMBER 12, 2015

ARIZONA STATE RETIREMENT SYSTEM
SUN CITY FIRE DISTRICT
NOVEMBER, 2015

The audit of the Sun City Fire District was completed November 12, 2015 for the period July 1, 2014 through June 30, 2015.

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

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

SUMMARY OF FINDINGS:

Based on the results of the work performed to meet the above audit objectives, there were no findings presented to the Sun City Fire District.

BACKGROUND

The Sun City Fire District joined the ASRS on October 1, 1998 by executing an Application and Social Security 218 Agreement. The Sun City Fire District currently has approximately six employees contributing to the ASRS.

DESCRIPTION OF AUDIT WORK PERFORMED

The audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2014 through June 30, 2015. The auditor reviewed pertinent documentation and interviewed the Sun City Fire District personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

- Review of the employer payroll records and related ASRS reports.
- Review of employees' time sheets and payroll records to determine eligibility.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.
- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.

ARIZONA STATE RETIREMENT SYSTEM
SUN CITY FIRE DISTRICT
NOVEMBER, 2015

- Review the salaries of retiring employees to determine whether there is salary spiking during the years prior to the employee retirement.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

AUDITOR COMMENTS:

The Sun City Fire District personnel were cooperative, informative and helpful in providing time reports, payroll records, and other information necessary to effectively complete the ASRS audit.

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

**ARIZONA STATE RETIREMENT SYSTEM
INTERNAL AUDIT**

SOFTWARE LICENSING AUDIT

OCTOBER 16, 2015

ARIZONA STATE RETIREMENT SYSTEM
SOFTWARE LICENSING AUDIT
OCTOBER, 2015

We completed our audit of Software Licensing at the ASRS on October 16, 2015.

Our audit Objectives were:

1. The reliability and integrity of information.
2. Compliance with policies, plans, procedures, laws, and regulations
3. The economical and efficient use of resources.
4. The accomplishment of established objectives and goals for operations and programs.

The scope of our audit encompassed the examination and evaluation of the internal control structure and the quality of performance in carrying out assigned responsibilities for the audited area. The tests were designed to obtain sufficient, competent, and relevant evidence in order to provide a reasonable basis for our conclusions.

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

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

The agency is better positioned to monitor and maintain accurate software licensing since the 2010 audit due to restricting administrative rights of users and obtaining an automated tool that tracks installed software on the network. However, the tool is not fully implemented and effective yet, as further input and testing are still being done.

The agency does not have a consistent practice of reading the licensing agreements for the software it purchases or downloads for free. Also, there are a number of one-of-a-kind pieces of software on the agency network that may be of questionable origin and could potentially be removed.

BACKGROUND

The ASRS has many software programs it uses that require licensing of some type for a fee. These include Microsoft Windows, Microsoft Office, Adobe products, IBM COGNOS, and others. In addition, many pieces of software used by the agency are free and available for public use.

About 15 software vendors provided licensed software to the agency last year, valued at slightly less than \$1.2 million. The state's VAR (Value Added Reseller) vendor provided over \$443,000, or about 38%, of the agency's licensed software. As the VAR vendor, this supplier also provides periodic reporting to the ASRS on upcoming software expiration dates. ASRS' Technology Services Division utilizes this vendor's reporting by comparing it to internal data in Manage Engine to assist with accurate licensing renewals.

Since the last Software Licensing audit in 2010, the agency has made progress in two key areas resulting from recommendations in the audit. First, due to a number of stray downloaded

programs found on the network during the last audit and the need to harden agency systems for data security, the ASRS has implemented a white-listing of software that is allowed to run on the network and removed administrative rights for users in order to prevent unauthorized downloads that might contain potentially harmful payloads; such as worms, Trojans, key loggers, and other malicious executables. Second, the agency has acquired an automated tool to assist with tracking of licensed software on the network. This product, Manage Engine, has not yet been fully implemented and tested but has the capability to monitor software in a variety of ways: such as when it is installed, by whom, on what system, and what type of license. It can also monitor the licensing period and report on upcoming expirations or renewals, as well as under-licensing and over-licensing of software.

DESCRIPTION OF AUDIT WORK PERFORMED

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

Some of the tests performed were:

- Review of limited SOPs and other controlling procedures.
- Sample testing of software used vs licenses purchased.
- Sample free software on network for origin, purpose and usage.
- Interviews with ASRS staff & management.
- Research existing practices and procedural coverage for software licensing.
- Analyze software vendor purchases for the fiscal year under audit.
- Research licensing types and issues related to license content and wording.

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

**ARIZONA STATE RETIREMENT SYSTEM
INTERNAL AUDIT**

SOFTWARE LICENSING AUDIT

INTERNAL RECOMMENDATION SUPPLEMENT

OCTOBER 16, 2015

INTERNAL FINDINGS AND RECOMMENDATIONS:

- 1. The agency is better positioned to monitor and maintain accurate software licensing since the 2010 audit due to restricting administrative rights of users and obtaining an automated tool that tracks installed software on the network. However, the tool is not fully implemented and effective yet, as further input and testing are still being done.**

The audit revealed:

- Restricting administrative rights on users' machines have proved beneficial in reducing unauthorized and inappropriate downloads along with potential licensing conflicts.
- Acquisition of the Manage Engine tool has the capability to provide the needed monitoring and reporting processes once it is fully implemented and tested for accuracy and reliability.
- With implementation of the monitoring tool, the agency will need SOPs to ensure consistent steps for how the agency handles its software licensing process.

Best practices dictate an organization be aware of its software licensing responsibilities and monitor to ensure proper compliance and avoid under-licensing and over-licensing.

The improvements made since the last software licensing audit have enhanced the agency's capacity to monitor its software and allowed improved awareness of licensing types and renewal status. The full implementation of the automated tool will further help in this effort.

RECOMMENDATION:

Management should:

1. Continue with input and testing of the Manage Engine tool for software licensing until accuracy and reliability are adequate for agency needs.
2. Define detailed SOPs for software licensing to ensure ongoing monitoring accuracy and adequate reporting.

ADMINISTRATIVE RESPONSE:

1. Management concurs with the finding and it is being addressed as part of our five-year plan.
2. Management concurs with the finding and it is being addressed as part of our five-year plan.

- 2. The agency does not have a consistent practice of reading the licensing agreements for the software it purchases or downloads for free. Also, there are a number of one-of-a-kind pieces of software on the agency network that may be of questionable origin and if not needed or relevant should be removed.**

The audit revealed:

- Due to their length, language, complexity, and the time involved, only a limited number of licensing agreements are actually read when software is purchased or downloaded.

ARIZONA STATE RETIREMENT SYSTEM
SOFTWARE LICENSING AUDIT
OCTOBER, 2015

Because of this, there is a potential for licensing conditions to be misunderstood and users to inadvertently violate licensing arrangements in which they believed they were compliant.

- Some software vendors have written statements on the packaging that indicates breaking the cellophane wrapper constitutes acceptance of their End User License Agreement (EULA). Others declare that use of the software itself is acceptance.
- Available reporting on installed software listed 1,270 one-of-a-kind software items (52%) out of 2,429 distinct software pieces identified during a network discovery scan. Much of these are various editions or versions of other software, but many are freeware or public license software which have their own EULAs.
- Online research on a sampling of this one-of-a-kind software indicated several as potentially unwanted applications that are being researched by TSD as to their need and usefulness. Online information associated with certain of these programs indicated some tracked browser usage and reported it outside the network for the purpose of targeted advertising.
- Associated with some of these pieces of software was information about their EULA clearly stating that download of the free software automatically allowed downloading of possible other third party software as well. The “other” software can also have their own EULAs which may also contain wording about additional third-party downloads. This practice is referred to as cascading downloads and could result in software appearing on the network that no one was aware of and that could prove potentially harmful to network and data security at some point. At best, it clutters up the network.
- As an example of how infrequently EULAs are read, in 2005 a computer services and security company named PC Pitstop buried a sentence inside one of their license agreements promising a monetary reward to a limited number of users who emailed them. Months passed without any response. It took five months and more than 3,000 sales before anyone asked about the clause. That customer won \$1,000.
- As reported during the 2010 audit, an entity called BSA – The Software Alliance, is a group created in 1988 and represents many of the world’s largest software vendors in trying to control copyright infringement and educate computers users about it. They do this in a number of provocative ways. One method is their “Bust Your Boss!” program which encourages disgruntled employees to report pirating of software for a reward. Many vendors, including Microsoft, have EULAs that contain language requiring users to agree to audits. The Software Alliance’s board of directors is made up of executives from the various vendor companies the group represents. In a recent six-year period, BSA collected more than \$37 million dollars from entities caught using illegal software.

Given the degree of legalese and complexity in software licensing, best practices dictate that the ASRS be aware of what a licensing agreement says with regard to types, concurrency, duration, limitations, etc. in order to ensure adequate compliance. Other areas of concern may be the software vendor’s audit rights and what sorts of data they may extract and include in error reporting outside the agency’s network. As anyone who has ever browsed a software license agreement knows, they are typically filled with disclaimers/waivers of liability or responsibility for anything that may happen associated with use of the software. These factors, coupled with time constraints, provide the chief reasons most licensing agreements are readily accepted without benefit of a thorough reading.

When software licenses aren't read or fully understood, the agency may run afoul of wording that could result in additional costs for more licenses and penalties due to under-licensing. There could also be a data security component of not reading the licensing agreements, such as when it may include language allowing uploading to the vendor (encrypted or not) of portions of data on either side of an identified error occurrence. This is done to "assist" vendors with debugging glitches and helping customers but could also expose sensitive data to unauthorized users.

RECOMMENDATION:

Management should:

1. Institute a practice of reading licensing agreements thoroughly in order to fully understand their content, the responsibilities of the parties, and expose potentially problematic areas. This should especially be done for key software products in broad use by the agency.
2. When it may not be practicable to read the license agreement, establish a list of essential keywords that can be used to search software licenses for problematic content and execute the searches to rule out the presence of such content or wording.
3. Once the Manage Engine is fully implemented and effective, use it to identify those programs that are no longer of use, or merely cluttering up the agency's machines, and establish a process of periodically culling them from the system over time.

ADMINISTRATIVE RESPONSE:

1. While management agrees there is some merit to this recommendation, we suggest the review and any potential actions/recommendations be incorporated into the upcoming IT Security Risk Assessment.
2. While management agrees there is some merit to this recommendation, we suggest the review and any potential actions/recommendations be incorporated into the upcoming IT Security Risk Assessment.
3. Management concurs with the finding and it is being addressed as part of our five-year plan.

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

**ARIZONA STATE RETIREMENT SYSTEM
REVIEW OF RECENTLY CONDUCTED AUDITS**

2015 EMPLOYER COMPLIANCE FOLLOW UP

JANUARY, 2016

ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER COMPLIANCE FOLLOW UP
JANUARY 2016

The Internal Audit Division (IAD) has completed follow-up reviews on all responses to audits completed in Fiscal Year (FY) 2015 or prior years.

The audit work performed during this engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

The audits included within the scope of this report are:

1. Town of Hayden – Reported to the OAC October 2014;
2. Altar Valley USD - Reported to the OAC October 2014;
3. Accelerated Learning Center – Reported to the OAC July 2015;
4. Catalina Foothills USD - Reported to the OAC March 2015;

The objective for this follow-up report is to ensure that all findings made during the audits and agreed to by management have been addressed and corrected by the promised due dates.

The audit findings and the follow-up findings for each report include:

(1) TOWN OF HAYDEN FOLLOW- UP

1. **Did not remit contributions on 9 employees who worked 20/20 and did not remit all eligible compensation on 5 employees.**
2. **Did not remit to the ASRS contributions that they deducted from employees.**
3. **Town remitted contributions to ASRS on 3 employees who never received income for those pay periods.**
4. **Town has not sent in ACR for any of its retirees who returned to work**
 1. Resolved - Town has corrected problem on eligible employees and on compensation.
 2. Resolved - Town has paid in all contributions they withheld from employees.
 3. Resolved - Town has corrected problem. Inexperienced accountant had sent in the same payroll data for multiple pay periods.
 4. Resolved - Paid ACR on all retirees identified in first audit but did not pay on a retiree for 2015. As of now Town has paid most of what they owe on this new retiree.

(2) ALTAR VALLEY USD FOLLOW- UP

1. **Did not remit the ACR for three of it's returned to work retiree's.**
2. **Included lump sum payments on four employee's for accumulated vacation pay in their contributions to the ASRS.**
 1. Resolved – New payroll clerk was unaware of ACR requirement. She now reconciles all retirees with their ACR contributions.
 2. Resolved – Payroll clerk had just started and was unaware of eligible compensation. She now checks with ASRS on any amounts of pay received other than regular pay.

(3) ACCELERATED LEARNING CENTER FOLLOW-UP

1. The Charter school has not submitted all of the ACR that they owe on their Return to Work retiree's.
2. The Charter school did not remit contributions on all the eligible compensation for one employee.
3. The Charter school submitted contributions on an ineligible employee
 1. Resolved – Auditor worked with Bookkeeper in identifying a missed amount of ACR due to the ASRS. It has since been remitted to the ASRS.
 2. Resolved - Employer has corrected the problem. No staff member was noted who did not report all eligibile compensaation.
 3. Resolved – Employer corrected. No ineligible contributions were noted in subsequent testing.

(4) CATALINA FOOTHILLS USD FOLLOW- UP

1. Did not remit contributions on 2 employees who had worked 20 or more hours for 20 or more weeks.
2. Did not remit the ACR on 6 of its return to work retiree's.
3. Did not inform the ASRS that one retiree was no longer covered by dental insurance resulting in premium benefit overpayments.
 1. Resolved – Since the audit the school district HR sends a report to payroll when there are changes to an employees FTE. The school district performed a self audit to determine who should be contributing. New forms for authorizations, acceptance, training and card receipt have all been implemented. Monitoring of cards will be handled by the Procurement Department.
 2. Resolved – Same as 1
 3. Resolved – Human resources is now comparing their subsidy report to each of their medical and Dental invoices to ensure they identify any discrepancies.



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MEMORANDUM

TO: Mr. Jeff Tyne, Chair, Operations Committee (OC)

FROM: Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Mr. Bernard Glick, Chief Internal Auditor

DATE: January 27, 2016

RE: **Agenda Item #5:** Presentation, Discussion and Appropriate Action Regarding the ASRS Internal Audit Peer Review Scheduled for Presentation at the June 14, 2016 OAC

Purpose

To provide a summary of the upcoming scheduled audit of the Internal Audit Division which is required in the International Standards for Internal Audit every five years.

Recommendation

Informational only, no action required.

**STATUS OF INTERNAL AUDITS
FOR THE 6 MONTHS ENDED (Dec 2015)**

2015/16 AUDITS	HOURS BUDGETED	ACTUAL		PERCENT OF HOURS UTILIZED	ESTIMATED		EXPLANATION OF ACTUAL HOURS THAT EXCEED BUDGET BY MORE THAN 10%
		HOURS YTD	WORK		HOURS REMAINING	TOTAL HOURS WHEN COMPLETE	
Service Purchase Invoices	150	97		65%	53	150	
Investment Trade Tickets	0	0		0%	0	0	
Fraud Hotline/Internal Investigations	200	83		42%	117	200	
Employer Audits	3,200	1,950		61%	1,250	3,200	
Pension/Survivor Final Audit	200	0		0%	200	200	
Refunds Processing	150	94		63%	56	150	
Audit Follow-up	150	10		7%	140	150	
Census Data GASB 68	300	318		106%	0	318	
Software Licensing	150	160		107%	0	160	
WEB Services Post Implementation	450	0		0%	450	450	
Procurement, Bid Process	450	0		0%	450	450	
Management Fees-Agency	500	100		20%	400	500	
QDROs	100	100		100%	0	100	
TOTALS	6,000	2,912			3,116	6,028	
OTHER THAN AUDITS							
Member statement testing	100	105		105%	0	105	
Director requests	200	5		3%	195	200	
Requested audits/other*	200	0		0%	200	200	
TOTALS	500	110			395	505	
GRAND TOTAL	6,500	3,022			3,511	6,533	