



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

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

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

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

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jeff Tyne, Chair
Dr. Richard Jacob
Mr. Clark Partridge (joined the meeting @ 10:35 a.m.)

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

2. Approval of the Minutes of the December 9, 2015 Public Meeting of the OAC

Motion: Dr. Richard Jacob moved to approve the minutes of the December 9, 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 a Risk Assessment of the Contracts and Procurement Functions of the ASRS

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced the topic and turned the presentation over to Ms. Lisa King, Strategic Planning Policy Analyst. Ms. King provided a brief summary of the process as the Trustees recently received an update regarding risk assessments at the January 29, 2016 Board meeting. Ms. King reiterated the ASRS bases its risk management activities on the framework recommended by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. COSO is considered to be the industry authority on internal control, enterprise risk management and fraud deterrents. The agency believes its risk management activities have all the components in place and operating, ensuring an effective internal control environment. Ms. King added that completing risk assessments takes a considerable amount of effort and time and wanted to recognize Ms. Martha Rozen, Chief of Administrative Services, Mr. Russ Levine, Procurement and Budget Manager and their team for their efforts.

Ms. Rozen provided insight regarding the statutes and numerous guidelines that govern procurement and purchasing activities and what authority has been delegated to the agency. Ms. Rozen stated that although the ASRS does not have full autonomy, to date, the current arrangement is manageable. Ms. Rozen added the Board is kept apprised of how the ASRS is spending its money through the procurement and contract functions by way of the monthly Director's Report and annually, through the Comprehensive Annual Financial Report. Ms. Rozen turned the presentation over to Mr. Levine.

Mr. Levine provided an overview of the Enterprise Risk Management Committee's (ERM) Risk Assessment of the ASRS contracts and procurement functions. Although the ERM's conclusion is that the identified risks are manageable and that the ASRS has controls and strategies in place, for the purposes of discussion, Mr. Levine highlighted several potential risk/threats that management would like to further evaluate or reduce. ASRS staff will conduct additional industry research and analysis for services for which the ASRS contracts, cultivate a more collaborative approach to contract administration, with defined roles and responsibilities, and ensure sufficient resources are in place to achieve effective contract performance.

Throughout the presentation, Mr. Levine and Ms. Rozen responded to questions from the Committee.

Ms. King added the Enterprise Risk Management Committee tracks future action items and conducts follow-up every six months. Updates will be presented to the Committee periodically.

4. Review of Recently Conducted Audits

Mr. Bernard Glick reviewed the following audits conducted by the Internal Audit Division (IAD).

- **City of Douglas – Employer Audit**

The IAD had four findings from the City of Douglas audit. The employer agreed with the findings and IAD's recommendations.

- **Gila Bend Unified School District – Employer Audit**

The IAD had four findings from the Gila Bend Unified School District audit. The employer agreed with the findings and IAD's recommendations.

- **Peoria Unified School District – Employer Audit**

The IAD had three findings from the Peoria Unified School District audit. The employer agreed with the findings and IAD's recommendations.

- **Sun City Fire District – Employer Audit**

The IAD had no findings from the Sun City Fire District audit.

- **ASRS Software Licensing – Internal Processes**

The IAD audit revealed the ASRS has made great progress since 2010; however, two recommendations were made by IAD. The ASRS management agreed with IAD's recommendations.

- **2015 Agency & Employer Compliance Follow-up**

The IAD presented the Committee with an employer compliance follow-up for 2015 and advised that the agency follow-up would be presented at the April 12, 2016, OAC meeting. The IAD reviewed four previously conducted audits: Town of Hayden; Altar Valley Unified

School District; Accelerated Learning Center; and Catalina Foothills Unified School District. Mr. Glick reported all findings were resolved.

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

Mr. Glick advised the Committee that Practice Advisory 1312 of the International Standards for the Professional Practice of Internal Auditing requires the Internal Audit Division to undergo a peer review every five years to assess whether the standards of internal audit are being met. Although Mr. Glick attempted to secure an organization to complete the peer review, but was unsuccessful. Mr. Glick reported that he reached out to the Vice President of the Association for Pension Plan Fund Auditors who advised him of another method to comply with the peer review requirement. Mr. Glick explained the process as follows:

- The ASRS Chief Auditor will conduct a self-assessment of the IAD following an audit program.
- Have the assessment findings independently validated.
- The individual performing the independent validation will meet with the ASRS Director and the OAC Chairman for an interview.
- Upon completion of the interviews, a report will be prepared and presented to the OAC which is currently scheduled for the June 14, 2016 meeting.

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 a need for a change to the Biennial Audit Plan. Due to unforeseen circumstances, two of the auditors must reduce their work hours to part-time; therefore, Mr. Glick is requesting that the Committee approve the removal of the ASRS Procurement and Bid Process audit from the 2016 and 2017 Internal Audit Biennial Work Plan. Mr. Glick explained this is the logical audit to remove because the State Procurement Office recently completed an audit in 2015.

Motion: Dr. Richard Jacob moved to accept the requested change to the Biennial Audit Plan by removing the Procurement and Bid Process audit and forward to the full ASRS Board for consideration. Mr. Clark Partridge seconded the motion.

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

7. Request for Future Agenda Items

Mr. Guarino shared a draft list, with the Committee, of future OAC topics which staff has prepared and opened up the discussion for any additional suggestions from the Committee. Dr. Jacob added he would like to see the results of the Annual Retiree Survey on a future agenda.

8. Call to the Public

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

9. Adjournment of the OAC

Motion: Dr. Richard Jacob moved to adjourn the meeting at 11:28 a.m. Mr. Clark Partridge seconded the motion.

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

Respectfully Submitted,

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File

Melanie Alexander
Committee Administrator

Signed Copy on File

Anthony Guarino
Deputy Director and Chief Operations Officer