How ASRS employees deliver service with PRIDE

PROFESSIONALISM
- Friendly, respectful and courteous
- Proactive and responsive
- Good communicator / active listener
- Trusted contributor / teammate
- Personally accountable
- Subject matter expert
- Critical thinker
- Honest, fair, non-judgmental
- Adaptable to change
- Adhere to the Code of Conduct

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

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

DIVERSITY
- Encourages the free flow of ideas and opinions
- Treats all people with dignity and respect
- Works effectively with dissimilar individuals
- Recognizes and promotes new skills in others

EXCELLENCE
- Surpasses expectations
- Engenders a positive public image
- Celebrates / rewards accomplishments and contributions of others
- Embraces change in a manner which inspires others
- Promotes teamwork / collaboration through communication
- Accepts personal responsibility and challenges with enthusiasm

ARIZONA STATE RETIREMENT SYSTEM

Celebrating Sixty Five Years

1953  2018
AGENDA

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

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

August 6, 2018
10:30 a.m.

Pursuant to A.R.S. § 38-431.02(F), notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Operations, Audit, and Legislative Committee (OALC) and to the general public that the ASRS OALC will hold a meeting open to the public on Monday, August 6, 2018, beginning at 10:30 a.m. 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 OALC; however, due to possible attendance by other ASRS Board Trustees, this meeting may technically become a meeting of the Board or one of its committees. Actions taken will be consistent with OALC governance procedures. Actions requiring Board authority will be presented to the full Board for final decision.

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.

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

This meeting will be teleconferenced to the ASRS Tucson office conference room at 4400 E. Broadway Boulevard, Suite 200, Tucson, Arizona 85711. The conference call to Tucson will be disconnected after 15 minutes if there are no attendees in the Tucson audience.

The agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks ....................................................... Mr. Clark Partridge
   OALC Chair

2. Approval of the Minutes of the April 4, 2018, Public Meeting of the OALC........................ Mr. Clark Partridge
3. Presentation, Discussion, and Appropriate Action Regarding the ASRS Employer Review and Data Analysis Plan ................................................................. Mr. Anthony Guarino  
Deputy Director and Chief Operations Officer  
.................................................................................................................. Mr. Dave King  
Assistant Director, Member Services Division  
.................................................................................................................. Ms. Michele Briggs  
Employer Relations Manager, Member Services Division  
............................................................................................................ Ms. Courtney Micheau  
Management and Benefits Analyst, Member Services Division

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Retiree Health Insurance Contract Renewal ......................................................... Mr. Anthony Guarino  
......................................................................................................................... Mr. Dave King  
................................................................................................................. Ms. Julie Lockwood  
Program Manager  
........................................................................................................................  Mr. Frank Perri  
Benefits Program Administrator  
............................................................................................................ Ms. Courtney Micheau

5. Presentation, Discussion, and Appropriate Action Regarding Notice of Rulemaking ...............  
............................................................................................................... Mr. Anthony Guarino  
............................................................................................................... Ms. Jessica Thomas  
Government Relations Officer and Rules Writer

6. Review of Recently Conducted Audits ................................................................. Mr. Anthony Guarino  
.................................................................................................................. Mr. Harold Mackey  
Chief Internal Auditor

- City of Coolidge – Employer Audit  
- Gadsden Elementary School District – Employer Audit  
- Pima Prevention Partnership – Employer Audit  
- Pima Prevention Partnership/Pima Partnership Academy – Employer Audit  
- Pima Prevention Partnership/Arizona Collegiate High School – Employer Audit

7. Presentation, Discussion, and Appropriate Action Regarding the ASRS Fiscal Year 2019 Audit Plan................................................................. Mr. Anthony Guarino  
.................................................................................................................. Mr. Harold Mackey

Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(2), notice is hereby given to Trustees of the ASRS OALC and the general public that the ASRS OALC may vote to go into executive session, which will not be open to the public, for the purpose of discussion or consideration of records exempt by law from public inspection.
8. Presentation, Discussion, and Appropriate Action Regarding the ASRS Security Program
   .......................................................................................................................... Mr. Anthony Guarino
   .......................................................................................................................... Mr. Jeff Hickman
   Information Security Officer
   .......................................................................................................................... Mr. Jonathan Kaeuper
   Clearwater Principal Consultant

9. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics
   Including:
   a. Presentation/update of the ASRS Appropriated and Continuously Appropriated Budget
      Plans to include the ASRS Administrative and Investment Spending Plans for FY 2019.
   b. Presentation of the ASRS Appropriated and Continuously Appropriated Budget Request
      and the ASRS Administrative and Investment Spending Plans for FY 2020.
   .......................................................................................................................... Mr. Paul Matson
   Director
   .......................................................................................................................... Mr. Anthony Guarino
   .......................................................................................................................... Ms. Martha Rozen
   Chief of Administrative Services
   .......................................................................................................................... Mr. Russ Levine
   Procurement and Budget Manager
   .......................................................................................................................... Ms. Kerry White
   Assistant Chief Investment Officer

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

11. Call to the Public ....................................................................................... Mr. Clark Partridge

Those wishing to address the ASRS OALC 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(H) from discussing or taking legal
action on matters raised during an open call to the public unless the matters are properly
noticed for discussion and legal action. As a result of public comment, the Committee Chair
may direct staff to study and/or reschedule the matter for discussion and decision at a later
date.

12. The next regular public OALC meeting is scheduled for Wednesday, October 3, 2018, at
    2:30 p.m., at 3300 N. Central Avenue, in the 14th Floor Conference room, Phoenix, Arizona.

13. Adjournment of the OALC
A copy of the agenda background material provided to the OALC Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 4400 East Broadway Boulevard, Suite 200, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (https://www.azasrs.gov/content/board-and-committee-meetings) approximately 48 hours prior to the meeting.

Persons(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 July 27, 2018

ARIZONA STATE RETIREMENT SYSTEM

Signature on File
Melanie Alexander
Committee Administrator

Signature on File
Anthony Guarino
Deputy Director and Chief Operations Officer
Agenda Item #2
MINUTES OF A PUBLIC MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS, AUDIT & LEGISLATIVE COMMITTEE

Wednesday, April 4, 2018
2:30 p.m., Arizona Time

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

Mr. Clark Partridge, Chair of the OALC, called the meeting to order at 2:30 p.m.

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

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge, Chair
Mr. Jim Hillyard, Vice-chair
Mr. Rene Guillen

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

2. Approval of the Minutes of the January 3, 2018 Public Meeting and Executive Session of the OALC

Motion: Mr. Jim Hillyard moved to approve the Minutes of the January 3, 2018, Public Meeting and Executive Session of the OALC. Mr. Rene Guillen seconded the motion.

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

3. Presentation, Discussion, and Appropriate Action Regarding Notice of Rulemaking

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, presented to the Committee the current rulemakings in process and provided a brief summary of the following:

• Notice of Rulemaking to update all rules that reference the interest rate due to the rate change which was approved at the December 2, 2017 ASRS Board meeting.

• Notice of Emergency Rulemaking - R2-8-902: Compensation for remitting Contributions. In January 2018, new rules related to compensation became effective. However, the ASRS needs to clarify that employers need to continue making contributions on two types of payments for employees who became ASRS members prior to January 1, 2018.

Motion: Mr. Rene Guillen moved to approve proceeding with both rulemakings as proposed. Mr. Jim Hillyard seconded the motion.
By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Strategic Planning Model

Mr. Anthony Guarino introduced the topic stating this is an opportunity to share with the Committee the thoughts and preparations for moving into the next plan cycle as the strategic plan will be coming to an end June 30, 2018. He briefly highlighted future plans for improving performance and operational cost effectiveness such as, establishing better tracking and performance methods and incorporating Lean Six Sigma principles to enhance productivity and streamline operations. Mr. Guarino introduced the Strategic Planning and Analysis team and turned the presentation over to them.

Ms. Sara Orozco, Strategic Planning and Analysis Manager, reviewed the strategic planning model used at the ASRS, providing information regarding how it has helped the ASRS achieve results, and what changes will be implemented in the future. After responding to questions from the Committee, Ms. Orozco turned the presentation over to Mr. Jeremiah Scott, Senior Management Analyst, and Ms. Lisa King, Policy Analyst, to provide an overview of the new software tool the ASRS will be using agency-wide to report on agency performance.

Mr. Scott introduced OnStrategy, the software tool to be utilized by ASRS staff which will assist the agency in meeting its goals. The purpose of the tool is to:

- Provide clarity of purpose; clearly define what is expected
- Establish standardization and uniformity
- Provide centralized, accessible performance data
- Automate notifications
- Ensure improved communication, visibility and transparency
- Provide real-time performance data on customizable dashboards
- Provide links on a variety of tools

Ms. King provided additional input during the presentation and staff responded to questions from the Committee.

5. Presentation, Discussion, and Appropriate Action Regarding Updates to the Internal Audit Quarterly Report and the FY 2018 Audit Plan, Including the Transition of Compliance Reviews to the ASRS Member Services Division Employer Relations Unit

Mr. Harold Mackey, Interim Chief Internal Auditor, reviewed the current status of the FY 2018 Audit Plan, including highlights regarding ongoing and restructuring activities with the transition of compliance reviews to the Member Services Division Employer Relations Unit. Mr. Mackey advised the Committee the Internal Audit Division (IAD) still has two employer audits to complete and one activity that needs to be discussed with and transferred to the Employer Relations Unit. Mr. Mackey commented on calls received by the ASRS’ fraud hotline. He also advised the IADs upcoming focus will be on training for the IAD team to assist with fulfilling the expectations of the restructure and additional responsibilities.

Also discussed briefly was the process moving forward for reporting employer compliance review findings to the Committee should there be significant findings or an indication of a trend setting. Mr. Matson responded by noting his thoughts for this process which would be for Mr. Dave King, Assistant Director, Member Services Division, to report to the Committee regarding service updates,
possibly annually and with delta updates being presented by IAD as needed; however, this will be discussed further with Mr. King and Mr. Mackey to finalize the process going forward.

6. Recently Conducted Employer Audits

Mr. Adel Korish and Ms. Rosie Tomforde, ASRS Audit Officers, and Mr. Harold Mackey reviewed the following audits conducted by the IAD.

- **Carpe Diem & Juniper Tree Charter Schools – Employer Audit**
  The IAD had one finding from the Carpe Diem & Juniper Tree Charter Schools audit. The employer agreed with the findings and IAD’s recommendations.

- **ASRS Pension Benefit Calculation – Internal Processes**
  The IAD had no findings from the ASRS Pension Benefit Calculation review of internal processes.

- **2017 Employer Compliance Follow-up**
  The IAD presented the Committee with an employer compliance follow-up for 2017. The IAD reviewed two previously conducted audits as follows:
  
  - City of Bisbee – Ms. Tomforde reported of the three findings, three were partially resolved.
  - City of Eloy – Mr. Mackey reported of the five findings, all were resolved.

7. Call to the Public *(formerly agenda item #9)*

Due to the possibility of the Committee moving into executive session for agenda item #7, Mr. Partridge adjusted the order of the agenda and made a call to the public. There were no members of the public in Phoenix or Tucson requesting to speak.

8. Presentation, Discussion, and Appropriate Action Regarding the ASRS Retiree Health Insurance and Long Term Disability (LTD) Performance Guarantees *(formerly agenda item #7)*

Mr. Guarino introduced the topic and asked the Committee if they had any questions regarding the materials that have been provided, indicating that if they did, depending on the nature of the questions, there may be the need to move into executive session.

Mr. Matson provided a brief summary regarding changes in the ASRS’ oversight with regard to its vendors and enforcing the expectations set forth in the contracts. The ASRS will continue its efforts in this area and manage the expectations more closely.

The Committee had no further questions.

9. Request for Future Agenda Items *(formerly agenda item #8)*

None were requested.
10. The next regular public OALC meeting is scheduled for Wednesday, July 11, 2018, at 2:30 p.m., at 3300 N. Central Avenue, in the 14th Floor Conference room, Phoenix, Arizona.

Mr. Partridge noted the next OALC meeting is scheduled for Wednesday, July 11, 2018 at 2:30 p.m.

11. Adjournment of the OALC

Motion: Mr. Jim Hillyard moved to adjourn the meeting at 4:03 p.m. Mr. Rene Guillen seconded the motion.

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

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM
Agenda Item #8
MEMORANDUM

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

FROM: Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Mr. Dave King, Assistant Director, Member Services
Ms. Michele Briggs, Program Manager
Ms. Courtney Micheau, Management and Benefits Analyst

DATE: July 19, 2018

RE: Agenda Item #3: Presentation, Discussion, and Appropriate Action Regarding the Employer Review and Data Analysis Plan

Purpose
To review the Member Service Division’s current status for ongoing Employer Review and Data Analysis Program.

Recommendation
Informational only, no action required.

Background
Since the Member Services Division added the Employer Compliance Review function in February 2018, as approved by the Board, the Employer Relations and MSD Analyst teams have already taken steps to design and implement the program.

The overall goal of the program is to reach and educate employers on application of membership rules before reporting anomalies become large errors with significant monetary impact to the ASRS, the Member, and/or the Employer.

This new function of Review-Monitor-Analyze includes proactively addressing potential contribution reporting and ASRS membership errors, cultivating stronger partnerships with ASRS employers, and using a risk-based approach to identify and quantify evolving issues going forward.

The following presentation details those efforts and outlines the expectations and status reporting of the program going forward.
Employer Review & Data Analysis Plan

M. Briggs  C. Micheau

Employer Relations & MSD Management Analyst Team
Member Services Division

Arizona State Retirement System

Employer Review & Analysis Plan, 2018
Outline

1. Background, Goals, and Getting Started
   - Where We Started
   - Analyzing the Current Process

2. The Review-Monitor-Analyze Function
   - Defining our Terminology and our Team

3. Identifying Monitoring Concepts

4. Implementation Steps Taken
   - Steps Taken to Apply Review-Monitor-Analyze Concepts

5. Employer Review Results
   - Results from Preliminary Employer Review

6. Summary
Outline

1. Background, Goals, and Getting Started
   - Where We Started
     - Analyzing the Current Process
2. The Review-Monitor-Analyze Function
   - Defining our Terminology and our Team
3. Identifying Monitoring Concepts
4. Implementation Steps Taken
   - Steps Taken to Apply Review-Monitor-Analyze Analysis Concepts
5. Employer Review Results
   - Results from Preliminary Employer Review
6. Summary
The Member Services Division added the Employer Compliance Review Function at the ASRS Board Meeting in February 2018.

Employer Relations and the MSD Management Analyst Team met with Internal Audit to discuss the Employer audit process and establish a plan to transition the function from the Audit Team to MSD.

Prior to February 2018, in addition to the audit review process completed by the ASRS, Employers were encouraged to go through a process referred to as “self-audits.”
Historically, the Employer Compliance Review team consisted of three groups working independently until action was initiated or requested.
The Employer Relations and Analyst Team have expanded upon the Compliance Review and “self-audit” concepts to:

- Proactively address potential errors using a Review-Monitor-Analyze Function
- Partner with Employers by building relationships that promote communication and collaboration to resolve errors; and
- Reduce risks by identifying and quantifying the evolving issues\(^1\), reducing time and cost to the ASRS and our Members

\(^1\)These goals are intended to keep Employer Relations in line with the ASRS strategic plan to quantify and report on errors and the corrective actions taken.
Outline

1. Background, Goals, and Getting Started
   - Where We Started
   - Analyzing the Current Process

2. The Review-Monitor-Analyze Function
   - Defining our Terminology and our Team

3. Identifying Monitoring Concepts

4. Implementation Steps Taken
   - Steps Taken to Apply Review-Monitor-Analyze Analysis Concepts

5. Employer Review Results
   - Results from Preliminary Employer Review

6. Summary
Employer Relations and the MSD Management Analyst conducted a pre-LEAN review to identify the Employer Relations processes which could be expanded upon and those that could be enhanced or made more efficient.

With the understanding that MSD would not be performing traditional audits, research and analysis was conducted to explore modern auditing practices and concepts intended only to establish a baseline to help build a successful process.  

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2For the purpose and application of the Review-Monitor-Analyze Function, modern auditing practices and concepts refers to the most up-to-date techniques discussed by today’s auditors on forums such as Internal Auditor https://iaonline.theiia.org/.
The function is made up of three parts which must work together simultaneously to return results. Each piece could be initiated at anytime throughout the process, creating the movement of the entire function.
Outline

1. Background, Goals, and Getting Started
   - Where We Started
   - Analyzing the Current Process

2. The Review-Monitor-Analyze Function
   - Defining our Terminology and our Team

3. Identifying Monitoring Concepts

4. Implementation Steps Taken
   - Steps Taken to Apply Review-Monitor-Analyze Concepts

5. Employer Review Results
   - Results from Preliminary Employer Review

6. Summary
What does “Review,” “Monitor,” and “Analyze” Mean to MSD?

**Review** happens when the Employer Relations team interacts with or meets with Employers, studies Employer accounts and Employer questions, and draws conclusions from reporting data sent to them from the Analyst Team, the Financial Services Division, or another ASRS team. *The “review” is the comparison of that reporting data to the criteria (Statutes, Rules, etc.) and the history of the same Employer data.*

**Monitoring** is the continuous organization and initiation of this “review” and “analysis” by means of actively looking for risk triggers. Employer Relations will contact the Analyst Team when a risk trigger is raised initiating a query for data intended for review by the team. When a trigger is raised, Employer Relations will review the situation and continue to interact with the Employer. “Monitoring” is ongoing for all risk triggers and all ASRS Employers on a generalized, large scale, and becomes individualized during the analysis process.

**Analyze** refers to data queries run in SQL by the MSD Analyst Team and is initiated both routinely with a large scope for common risks and ad hoc when individual risks or anomalies are found by the Employer Relations Team, FSD, escalated from another ASRS team, or found by the Employer, themselves. *The Compliance Review Team analyzes potential risk triggers and their criteria to create queries relevant to the current and anticipated anomalies leading to errors or problems down the road.* The result of this analysis is then sent to the Employer Relations Team for “review.”
Expanding the team to incorporate active participation from Employer Relations, Financial Services, and the MSD Analysts enable the team to stay in line with the goal of a proactive, real-time approach.
Components of the Review-Monitor-Analyze Function

- **Focus on insight- not hindsight** by using a proactive approach and comparing current reporting data to historical contribution reporting data in order to anticipate and reduce risk.

- **Plan around risks- not cycles** by building a flexible risk-based system to prioritize review supported by monitoring results, analysis, and live data received through the course of regular employer interaction.

- "**Monitor at the speed of risk**" by creating a culture that proactively adapts to change. This includes expanding the “team” concept to other ASRS divisions in order to communicate and collaborate when triggers indicating employer data analysis or review is required are identified.

- **Evaluate necessary tools** and consider whether the current tools and skills are sufficient. Research new ways of updating tools or practices based on evaluation results.

- **Accept conditions by making recommendations** to reduce the cause of common problems.
Background, Goals, and Getting Started
- Where We Started
- Analyzing the Current Process

The Review-Monitor-Analyze Function
- Defining our Terminology and our Team

Identifying Monitoring Concepts

Implementation Steps Taken
- Steps Taken to Apply Review-Monitor-Analysis Concepts

Employer Review Results
- Results from Preliminary Employer Review

Summary
Applying Concepts

- **Focus on insight- not hindsight:** Employer Relations is working in “real-time” to create processes that “kill two birds with one stone” by building monitoring functions into routine interactions with employers. Such as: Including Employer training info into responses to FAQ and using Employer Secure Messaging to respond to all inquiries which helps direct Employers to online resources and enables better tracking for the ASRS. This collaboration includes expanding on the original concept of “self audit” by encouraging Employers to review their own data and make the necessary corrections.

- **Plan around risks- not cycles:** Employer Relations continuously tracks employers who are at risk for errors and incorrect reporting based on a variety of factors which trigger employer contact. Such as: non-responsive Employers, Employers who have frequent questions, those with high staffing turn-over, member appeals, and historical errors (primarily with contributions), etc.
Applying Concepts (Continued)

- **Accept conditions by making recommendations & “monitor at the speed of risk”:** The Employer Relations Team is working closely with the MSD Analyst Team and the Financial Services Division to identify and review triggers through means of data mining, reporting errors, and routine collaboration meetings to compare notes about Employer interactions that raise questions and identify training needs or potential problems.

- **Evaluate necessary tools:** Employer Relations has evaluated their processes, tools, and team training needs in order to reduce unnecessary workload and enhance efficiency. Enhancements include the creation of templates, maximizing the utilization of tools such as Microsoft OneNote, expanding team knowledge, and skill level with programs such as Microsoft Excel, and other cost-beneficial training opportunities.
The ASRS Employer Relations Team has already reviewed 12 Employer Review - One on One Meetings.

- State, 1
- School Districts, 2
- Cities, 2
- Community Colleges, 3
- Charter Schools, 4
- School Districts, 2
- Cities, 2
- Community Colleges, 3
- Charter Schools, 4
Outline

1. Background, Goals, and Getting Started
   - Where We Started
   - Analyzing the Current Process
2. The Review-Monitor-Analyze Function
   - Defining our Terminology and our Team
3. Identifying Monitoring Concepts
4. Implementation Steps Taken
   - Steps Taken to Apply Review-Monitor-Analyze Concepts
5. Employer Review Results
   - Results from Preliminary Employer Review
6. Summary
The following issues have been uncovered after conducting the Employer review process for just one Employer:

- The Employer had one school which was covered under the ASRS.
- The Employer added two additional schools with the incorrect assumption that the additional schools would be covered.
- The employees of the schools are dividing time between schools.

What does this mean for the employees, the Employers and the ASRS?

1. Failure to meet membership criteria
2. Return to Work (RTW) errors; either a lack of understanding of the Alternate Contribution Rate (ACR) Law, or failure to complete the RTW Form
Impact of these Errors

- Employees of the three schools who do not meet membership criteria with at least one school will not be members of the ASRS as they believed.

- ASRS staff will have to correct this issue by involving the Contributions Accounting Team, the Employer Relations Team, the Benefits Accounting Team, and the Member Advisory Center.

- There will be a monetary impact to both the Employer (original school) and the employees of the schools.

In the event that an Employer Review uncovers an issue with impact beyond the scope of the Monitor-Review-Analyze Function, MSD will communicate with Internal Audit, the ASRS Deputy Director, and Executive Director to determine next steps and potentially engage the Internal Audit Division to assist Employer Relations.
Summary

The condensed goal of the monitoring of risk triggers, the review and comparison of the reporting data, and the analysis that goes into building the triggers and creating the reports is intended to reach employers before the anomalies become large errors with significant monetary impact to the ASRS, the Member, and/or the Employer.

- **Expected Outcome & Future Updates:**
  - Status updates regarding the application of this process with more in-depth Employer Review Results.
    - Reporting on % of Employers with significant compliance issues
    - Reporting on % of Employers with significant compliance issues that took corrective action and what that means in the context of ASRS Employers as a whole
  - At the end of fiscal year 2019 the Internal Audit Team will review the implementation of the new Employer Compliance Review Function.
Agenda Item #4
MEMORANDUM

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

FROM: Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
       Mr. Dave King, Assistant Director, Member Services
       Ms. Julie Lockwood, Program Manager
       Mr. Frank Perri, Benefits Administrator
       Ms. Courtney Micheau, Management and Benefits Analyst

DATE: July 25, 2018

RE: Agenda Item #4: Presentation, Discussion, and Appropriate Action Regarding the ASRS Retiree Health Insurance Program Contract Renewal

Purpose
To review UnitedHealthCare’s (UHC) renewal for the 2019 plan year for Medicare and non-Medicare eligible ASRS, Public Safety Personnel Retirement System, Corrections Officer Retirement Plan, Elected Officials Retirement Plan and University Optional Retirement Plan retirees, eligible disabled members, and eligible dependents.

Recommendation
Move to forward to the Board for approval.

Background
The ASRS staff and consultants from Segal negotiated with UHC regarding UHC’s 2019 health insurance medical plans renewal. The current contract was awarded January 1, 2015, for one year with four annual renewals through December 31, 2019. Plan year 2019 will be the fifth and final year of the contract (4th renewal).

Please note: a glossary of terms is provided at the end of this memo.

Each medical plan’s cost, trend, revenue, and other critical data were reviewed, verified and discussed. An additional focus this year was on the Senior Supplement (SS) plan design for Medicare retirees, with the intent to offer a more competitive supplement plan premium to ASRS retirees.

The ASRS, Segal and UHC researched available Medicare supplement offerings, including a plan design equivalent to the individual supplement plan most often mentioned by ASRS retirees as more affordable (AARP Medicare Supplement, also administered by UHC). We compared those plans to the existing SS plan in terms of medical benefits, prescription benefits, opportunities for Centers for Medicare and Medicaid Services (CMS) funding and member cost share (premiums, copays, etc.)
After determining the AARP individual supplement plans were not comparable with our retiree group plan design, as outlined by statute, ASRS staff narrowed down the choices to (1) a new Group Medicare Advantage and Prescription Drug (MAPD) PPO plan or (2) staying with the current SS plan.

ASRS staff reached out to retirees for input. We met with and received constructive feedback from our standing Health Insurance Advisory Committee (HIAC), consisting of representatives from nine different retiree associations that oversee groups of ASRS retirees, including Arizona Educators Association – Retired (AEA – Retired), Arizona State University Retiree Association, All Arizona School Retirees Association (AASRA), University of Arizona Retiree Association, and other school, state, county and city retirees.

ASRS greatly appreciates the members of the HIAC for their engagement and commitment to giving thoughtful and educated feedback on the potential switch from SS to Group MAPD PPO, as well as plans for Open Enrollment this year and some potential plan design recommendations considered by ASRS. Thanks to all those who attended.

After reviewing the available documentation, the team – HIAC retirees, UHC, ASRS staff and Segal – unanimously recommend to convert our retirees and dependents who are enrolled for 2019 in ASRS SS plan automatically to a new Group MAPD PPO plan as of January 1, 2019.

Every retiree and dependent currently on the SS plan will be seamlessly converted from the SS plan to the MAPD PPO effective January 1, 2019. No action will be required by the member during Open Enrollment, although any retiree can enroll into the new PPO plan via Open Enrollment. Any retiree still remaining on SS after Open Enrollment has ended on November 30 will be converted automatically in time to receive new ID cards by January 1, 2019.

Preliminary Timeline of Notification to Members*

- **October 2018 Mailing**
  - Mass announcement in the fall Retiree Newsletter and Insurance Guides, with special notification in an insert on top of all materials
- **October 2018 Email**
  - Targeted email to all Medicare-eligible retirees on the conversion, and the comparison of the HMO, PPO and SS plans
- **October/November 2018 Email**
  - Mass emails and reminders to all eligible retirees regarding Open Enrollment, which will include special attention on the new PPO plan
- **December 2018**
  - UHC and ASRS will convert all remaining SS members to MAPD PPO effective January 1, 2019
  - New ID cards will be mailed to all affected subscribers

*UHC will develop a complete project plan and timeline for ASRS approval in the coming weeks that will include all details and communications related to this conversion.

The medical and prescription benefit structure of the Group MAPD PPO plan is exactly the same (or better, in some cases) as the current SS plan, while the member’s total out of pocket costs will be much lower. Because the new PPO plan is a MAPD plan, the combination of additional CMS funding and care management programs results in a lower monthly premium for all subscribers.
All ASRS Plans will have a reduction in premiums for the 2019 Plan Year compared to the current, 2018 Plan Year, caused by negotiation efforts by ASRS staff, detailed analysis of claims experience, administrative cost analysis, enhanced trend analysis, as well as the suspension of Affordable Care Act fees in 2019. These reductions are independent of the use of any Retrospective Rate Agreement (RRA) funds.

The MAPD PPO premium, before RRA reductions, will experience an $82 reduction on premiums compared to the SS from 2018. ASRS staff also negotiated a $4 to $6 reduction on all pre-65 non-Medicare plans and a $53 reduction on the MAPD HMO plan.

In addition, the ASRS will reduce all premiums across all plans even further with the use of RRA funds, as approved by the Board earlier in 2018. This RRA reduction is applied proportionately to the plans that contributed to the RRA fund in past years, with the MAPD PPO replacing the SS plan.

See the table below for an illustration of total member savings in 2019 every month they are on an ASRS plan in 2019.

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Approx. Subscribers</th>
<th>Member Premium in 2018</th>
<th>Negotiated Rate Reduction</th>
<th>RRA Reduction</th>
<th>Member premium in 2019</th>
<th>Member SAVES, per month</th>
<th>% of All Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choice 1 Single</td>
<td>4,391</td>
<td>$933</td>
<td>-54</td>
<td>-54</td>
<td>$925</td>
<td>$0</td>
<td>15.6%</td>
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<tr>
<td>Choice 2 Single</td>
<td>283</td>
<td>$893</td>
<td></td>
<td></td>
<td>$885</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Choice 3 Single</td>
<td>557</td>
<td>$813</td>
<td></td>
<td></td>
<td>$803</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Navigate 1 Single</td>
<td>230</td>
<td>$877</td>
<td></td>
<td></td>
<td>$869</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Navigate 2 Single</td>
<td>77</td>
<td>$827</td>
<td></td>
<td></td>
<td>$819</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Navigate 3 Single</td>
<td>353</td>
<td>$753</td>
<td></td>
<td></td>
<td>$745</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Choice Plus Single (out of state)</td>
<td>121</td>
<td>$1,339</td>
<td>-6</td>
<td>-6</td>
<td>$1,329</td>
<td>$10</td>
<td>0.3%</td>
</tr>
<tr>
<td>Medicare Advantage HMO Single</td>
<td>20,014</td>
<td>$222</td>
<td>-55</td>
<td>-57</td>
<td>$97</td>
<td>$125</td>
<td>53.0%</td>
</tr>
<tr>
<td>Medicare Advantage PPO Single (was SS)</td>
<td>11,733</td>
<td>$351</td>
<td>-82</td>
<td>-102</td>
<td>$167</td>
<td>$184</td>
<td>31.1%</td>
</tr>
</tbody>
</table>

The table above refers only to medical premiums at single coverage rates. For the non-Medicare plans, the ‘family’ rate (and associated reductions) is two times the ‘single’ rate, while the Medicare plans are individually priced (i.e. one single rate for every Medicare plan subscriber). Combo plans – where there are both Medicare and non-Medicare plans selected as one combo plan – will receive an RRA reduction proportional to the premium being paid for the Combo plan.

Altogether, the ASRS projects that members will pay over $66 million less in medical premiums in 2019 compared to 2018, representing about 1/3 of total medical premiums paid across all 37,000 members if enrollment levels remain the same.

Dental plans and premiums are unchanged for 2019, after the ASRS negotiated a three-year rate freeze in 2018.

Health insurance Premium Benefit, used to offset the dental and medical premiums, are also unchanged. Premium Benefit ranges from $50 to $260 per month depending on years of service, number of covered individuals, Medicare eligibility and premium amounts. The retiree’s eligible amount will be used to offset premiums for each month they are on an ASRS plan.

For example, a Medicare-age retiree with 10 years of service, and therefore eligible for $100 per month Premium Benefit, who enrolls in the MAPD HMO plan in 2019 could pay as little as $0 net premiums out of pocket for 2019 because the HMO plan premium is currently below
$100 per month. Premium Benefit is applied to dental and medical premiums up to and not to exceed the premium amounts, with dental offset first and medical offset second.

The ASRS continues to utilize a one-way RRA with UHC that provides a reimbursement to the ASRS if total claims expenses do not exceed 93% of revenues (i.e., the negotiated medical loss ratio). Revenues include premiums enrolled members pay and reimbursements from CMS.

The 2016 medical loss ratio (claims expenses to revenues) across all plans was higher than the 93% threshold, resulting in no reimbursement from UHC. The preliminary 2017 medical loss ratio across all plans is currently expected to be just below 93%, which would result in a small reimbursement from UHC. The Experience Refund for 2017 will be finalized in late August 2018 and those monies will be used in next year’s negotiations to reduce applicable premiums in the 2020 plan year.
Glossary of terms

For a complete list of terms and definitions, see this link on the ASRS website. [https://www.azasrs.gov/content/glossary-insurance-terms](https://www.azasrs.gov/content/glossary-insurance-terms)

Some of the most relevant terms for this presentation are defined here.

The ASRS Premium Benefit Program
This benefit is provided to each eligible retired and disabled member who elects to participate in a health insurance plan sponsored by the ASRS, the Arizona Department of Administration, or a Participating Employer. This benefit helps reduce monthly health insurance premiums. The benefit to which you are entitled is dependent upon your years of credited service, enrollment in single or family coverage and whether you are Medicare eligible.

Retrospective Rate Adjustment Agreement
This RRA Agreement requires that revenue received by UnitedHealthcare in the form of subscriber premiums in excess of medical costs and negotiated expenses be returned to the ASRS. As a result, the ASRS has set up a fund from which to offset the ASRS plan premiums for 2019, 2020, and 2021 in proportion to the excess refunded from each plan. For example, excess funds given back to ASRS from the MAPD HMO plan would be earmarked for those enrolled in the same plan during those payback years.

Health Insurance Advisory Committee (HIAC)
The HIAC is a standing committee that meets on a regular basis with ASRS staff, consisting of representatives from any and all Arizona public employee retiree associations.

Health Maintenance Organization (HMO) Plan
A medical plan providing comprehensive medical benefits, including preventive care, when you agree to use a select group of network providers. Generally, all care is directed by your chosen Primary Care Physician (PCP). Your PCP will refer you to a specialist if medically appropriate.

ASRS Group Medicare Advantage HMO Plan
A plan for members who are enrolled in Medicare Parts A and B and in which UnitedHealthcare has entered into a contract with The Centers for Medicare and Medicaid Services (CMS), the federal agency that administers Medicare. This contract authorizes UnitedHealthcare to provide comprehensive health services to persons who are entitled to Original Medicare benefits and who choose to enroll in the Group Medicare Advantage (HMO) Plan. By enrolling in the Group Medicare Advantage (HMO) Plan, you have made a decision to receive all your routine health care from UnitedHealthcare contracted providers.

Preferred Provider Organization (PPO) Plan
A plan that provides benefits in an indemnity fashion, but pays a higher percentage of the cost of services if patients use a PPO network provider than if they use a non-PPO provider. If you go to a provider who is a member of the PPO network, after you first satisfy a deductible, the plan generally pays 80 percent of the cost for care and you pay 20 percent. If you go to a provider who is not a member of the PPO network, after you first satisfy a deductible, the plan generally pays 60 percent of the cost for care and you pay 40 percent.

ASRS Group Medicare Advantage PPO Plan
A plan for members who are enrolled in Medicare Parts A and B and in which UnitedHealthcare has entered into a contract with The Centers for Medicare and Medicaid Services (CMS), the
federal agency that administers Medicare. This contract authorizes UnitedHealthcare to provide comprehensive health services to persons who are entitled to Original Medicare benefits and who choose to enroll in the Group Medicare Advantage PPO Plan. By enrolling in the Group Medicare Advantage PPO Plan, you have access to UnitedHealthcare’s national network of providers. In addition, you can see providers’ out-of-network and pay the same out-of-pocket costs as in-network providers, as long as they participate in Medicare and accept the plan.

**ASRS Senior Supplement Plan**
A plan for members who are enrolled in Medicare Parts A and B. With this plan you have the freedom to obtain medical care from any physician or hospital that accepts Medicare.

**ASRS Non-Medicare Choice Plans**
These medical insurance plans are offered to ASRS retirees who are not yet eligible for Medicare (i.e. under 65). The doctor network and benefits operate most similar to a PPO In-Network only plan.

**ASRS Non-Medicare Choice Plus Plans**
These medical insurance plans are offered to ASRS retirees who are not yet eligible for Medicare (i.e. under 65). The doctor network and benefits operate most similar to a PPO plan with both In-Network and Out-of-Network plan.

**ASRS Non-Medicare Navigate Plans**
These medical insurance plans are offered to ASRS retirees who are not yet eligible for Medicare (i.e. under 65). The doctor network and benefits operate most similar to a HMO In-Network only plan.
Comparison
## Arizona State Retirement System Medical Benefit Comparison

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Current UHC Sr. Supp COB plan</th>
<th>Medicare Advantage Plan</th>
<th>Variations</th>
</tr>
</thead>
<tbody>
<tr>
<td>COB methodology</td>
<td>• Non-Duplication</td>
<td>• Non-Differential, MAPD PPO plan</td>
<td></td>
</tr>
<tr>
<td>Deductible</td>
<td>$150 (Applies to Inpatient hospital and Mental Health only)</td>
<td>$150 (Applies to Inpatient hospital and Mental Health only)</td>
<td></td>
</tr>
<tr>
<td>Out of Pocket Maximum</td>
<td>$6,700</td>
<td>$6,700</td>
<td></td>
</tr>
<tr>
<td>Lifetime Max</td>
<td>None</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td><strong>Physician Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Care Provider</td>
<td>$15</td>
<td>$15</td>
<td></td>
</tr>
<tr>
<td>Specialist</td>
<td>$25</td>
<td>$25</td>
<td></td>
</tr>
<tr>
<td>Virtual Visits</td>
<td>Not Available</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td><strong>Inpatient Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inpatient Hospital</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Inpatient Mental Health/Substance Abuse</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Skilled Nursing Facility (SNF)</td>
<td>$0, up to 100 days</td>
<td>$0, up to 100 days</td>
<td>Current plan: Prior hospital stay not waived</td>
</tr>
<tr>
<td><strong>Outpatient Hospital Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outpatient Hospital Services</td>
<td>$50</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Outpatient Surgery</td>
<td>$50</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Outpatient Mental Health/Substance Abuse Individual visit</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Outpatient Mental Health/Substance Abuse Group Visit</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Partial Hospitalization (Mental Health Day Treatment per day)</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Outpatient X-ray Services</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Clinical Laboratory Services</td>
<td>$0</td>
<td>$0</td>
<td>Generally Medicare pays 100% of Medicare Allowable amount</td>
</tr>
<tr>
<td>Diagnostic Procedure/Test</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Diagnostic Radiology Service</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Therapeutic Radiology Service</td>
<td>$0</td>
<td>$0</td>
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</tr>
<tr>
<td>Occupational Therapy</td>
<td>$0</td>
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</tr>
<tr>
<td>Physical/Speech/ Language Therapy</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Cardiac/Pulmonary Rehabilitation</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Benefit</td>
<td>Current UHC Sr. Supp COB plan</td>
<td>Medicare Advantage Plan</td>
<td>Variations</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>-------------------------------</td>
<td>-------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Kidney Dialysis</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Part B drugs</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Part B - Chemotherapy Drugs</td>
<td>$0</td>
<td>$0</td>
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</tr>
<tr>
<td>Blood</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Ambulance, Emergency Room and Urgent Care</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ambulance</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Emergency Room</td>
<td>$50</td>
<td>$50</td>
<td>Deductible waived per CMS guidelines.</td>
</tr>
<tr>
<td>Urgent Care</td>
<td>$25</td>
<td>$25</td>
<td>Deductible waived per CMS guidelines.</td>
</tr>
<tr>
<td>Home Health and Hospice Care</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home Health</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Hospice</td>
<td>$0</td>
<td>$0</td>
<td>Medicare does pay 100% on this typically resulting in the member having no out of pocket expenses on the Current Plan</td>
</tr>
<tr>
<td>Durable Medical Equipment (DME) and Medical Supplies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Durable Medical Equipment</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Prosthetics</td>
<td>$0</td>
<td>$0</td>
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</tr>
<tr>
<td>Orthotics and Diabetic Shoes &amp; Inserts</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Diabetic Monitoring Supplies</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Insulin Pumps and Supplies</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Preventive Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abdominal Aortic Aneurysm (AAA) Screening</td>
<td>$0</td>
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<tr>
<td>Alcohol Misuse Screening and Counseling</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Bone Mass Measurements</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Cardiovascular Disease (Behavioral Therapy)</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Cardiovascular Screenings</td>
<td>$0</td>
<td>$0</td>
<td></td>
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<tr>
<td>Benefit</td>
<td>Current UHC Sr. Supp COB plan</td>
<td>Medicare Advantage Plan</td>
<td>Variations</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>-------------------------------</td>
<td>-------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Colorectal Cancer Screening</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Depression Screening in Adults</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Diabetes Screening</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Glaucoma Screening</td>
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<td>$0</td>
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<tr>
<td>Diabetes - Self-Management Training</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Dialysis Training</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Hepatitis C Screening</td>
<td>$0</td>
<td>$0</td>
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</tr>
<tr>
<td>HIV Screening</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Immunizations</td>
<td>$0</td>
<td>$0</td>
<td>Per Medicare guidelines - travel immunizations will not be covered under the Medical Plan.</td>
</tr>
<tr>
<td>Kidney Disease Education</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Lung Cancer Screening</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Annual Screening Mammograms</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Medical Nutrition Therapy and Counseling</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Pap Smears and Pelvic Exams</td>
<td>$0</td>
<td>$0</td>
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</tr>
<tr>
<td>Prostate Cancer Screening Exams</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Routine Physical Exam / Preventive</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Screening and Counseling for Obesity</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Screening for Sexually Transmitted Infections (STIs) and high intensity Behavioral Counseling to prevent STIs</td>
<td>$0</td>
<td>$0</td>
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</tr>
<tr>
<td>Smoking Cessation Visit</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Benefit</td>
<td>Current UHC Sr. Supp COB plan</td>
<td>Medicare Advantage Plan</td>
<td>Variations</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>-------------------------------</td>
<td>-------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Wellness Exam and One-time Welcome-to-Medicare Exam (Medicare-covered)</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td><strong>Additional Benefits</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chiropractic Visit (Medicare Covered)</td>
<td>$15</td>
<td>$15</td>
<td></td>
</tr>
<tr>
<td>Podiatry Visit (Medicare Covered)</td>
<td>$25</td>
<td>$25</td>
<td></td>
</tr>
<tr>
<td>Eye Exam (Medicare Covered)</td>
<td>$25</td>
<td>$25</td>
<td></td>
</tr>
<tr>
<td>Eyewear (Frames and Lenses) after Cataract Surgery</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Hearing Exam (Medicare Covered)</td>
<td>$25</td>
<td>$25</td>
<td></td>
</tr>
<tr>
<td>Dental Services (Medicare Covered)</td>
<td>$25</td>
<td>$25</td>
<td></td>
</tr>
<tr>
<td><strong>Non-Medicare Covered Benefits</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency Room (Foreign Travel)</td>
<td>$250 Deductible 20% Coinsurance</td>
<td>$50</td>
<td>$50</td>
</tr>
<tr>
<td>Hearing Aids</td>
<td>Not Covered</td>
<td>$500, every 3 years</td>
<td>Current Plan: No Hearing Aid allowance provided.</td>
</tr>
<tr>
<td>Hearing Services (non-Medicare covered)</td>
<td>Not Covered</td>
<td>$0</td>
<td>Current Plan: No routine hearing services provided.</td>
</tr>
<tr>
<td>Podiatry (non-Medicare Covered)</td>
<td>Not Covered</td>
<td>$25, 6 visits per year</td>
<td>Current Plan: No coverage.</td>
</tr>
<tr>
<td>Vision Services (non-Medicare covered)</td>
<td>$20, per annual visit</td>
<td>$20, per annual visit</td>
<td></td>
</tr>
<tr>
<td>Eyewear (Non-Medicare Covered)</td>
<td>$130 for Glasses $105 for Contacts every 12 months</td>
<td>$130 for Glasses $105 for Contacts every 12 month</td>
<td></td>
</tr>
<tr>
<td><strong>Wellness / Clinical Programs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fitness (SilverSneakers)</td>
<td>This program provides a free gym membership to a SilverSneakers fitness center that includes group exercise classes, workouts, health education meetings, social events and much more. Members can also order a &quot;Steps Kit&quot; which provides tools for members who do not have a SilverSneakers fitness program nearby.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>hiHealth Innovations Discount Program</td>
<td>Offers discounted hearing aids. Members also receive a 1-year manufacturer's warranty, 70-day money-back guarantee, and free batteries and ear lubes/wax guards.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HouseCalls (MAPD PPO Only)</td>
<td>This service includes a comprehensive in-home visit by a nurse practitioner or other qualified clinician, designed to coordinate or supplement care received by a member’s primary care physician (PCP), other providers and caregivers.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NurseLine</td>
<td>This program provides support from a registered nurse 24 hours a day, every day to help members better understand their health care options, referral to other programs and more.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solutions for Caregiver</td>
<td>A comprehensive program that provides resources and tools designed to support family caregivers in helping aging family members to stay healthy and to function as independently as possible to live with dignity.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Arizona State Retirement System Medical Benefit Comparison

May 15, 2018
Overview
WHAT IS THE GROUP MEDICARE ADVANTAGE PPO PLAN?

UnitedHealthcare’s Group Medicare Advantage PPO may be offered with the following options:

- Either a local or a truly national service area
- Either a traditional (“differential”) benefit design or a non-differential "passive" PPO plan that has the same level of benefits in and out-of-network

Either version of the plan makes it easy for retirees to continue using the doctors and hospitals they know and trust.

When offered with non-differential benefits, your members will enjoy the unique benefit of the same low copay whether receiving in- or out-of-network care.

The plan includes a comprehensive network of contracted providers across the U.S. As mentioned above, plan members may also access care outside of the network – including from physicians who participate in Medicare but do not accept Medicare assignment – with no travel restrictions or referral requirements. The plan includes all of the care covered by Medicare Part A and Part B, and includes additional benefits designed to help retirees stay healthy such as annual check-ups, flu shots, nurse help lines and fitness programs. Retirees are not required to choose a primary care physician, and referrals are not needed to see a specialist. Medicare Part D features are integrated with our Medicare Advantage with prescription drug (MAPD) PPO plans.

CUSTOMER BENEFITS

Customers who choose our Group Medicare Advantage PPO plan will benefit from:

- Competitive premiums as our plans offer the same coverage as the Senior Supplement plan at a lower cost.
- Continuous searching for opportunities to engage your retirees in the right clinical programs at the right place and time. Our programs are uniquely designed to help your retirees stay healthy, return to health when they are ill and have a better quality of life when living with a chronic condition.

RETIREE BENEFITS

Retirees who enroll in our Group Medicare Advantage PPO plans benefit from:

- Financial predictability that comes from limits on annual out-of-pocket expenses and cost sharing levels that are the same both in network or out of network.
- Our comprehensive national network of more than 612,000 contracted providers plus access to care outside of the network – including from physicians who participate in Medicare but do not accept Medicare assignment – with no travel restrictions or referral requirements.
- Medical and pharmacy clinical programs included at no additional cost.
- The convenience of one ID card for all medical and prescription drug needs.
ENGAGING RETIREES THROUGH ADVOCATE4ME

Our Advocate4Me program is designed to create a better member experience, help members take charge of, and make better decisions about, their health care. Advocate4Me has enabled UnitedHealthcare to identify and deliver on life-saving opportunities, connecting members with screenings and other preventative services.

This personalized, member-specific interaction with the people we serve holds enormous promises to not only improve the quality of our Medicare plans, but also save lives. The goal of the advocate is to service the call as usual, and deliver all Suggested Opportunities during the call, if the member agrees, to close gaps in care.

In order to accomplish this, the Advocate4Me program does the following:

- **Simplify the Retiree Experience.** Connect consumers through a single toll-free number to a trusted advocate who helps them get the most out of their benefits, obtain the best care, avoid surprises and save time and money.

- **Personalize the Retiree Experience.** Use our position as a retiree’s health insurer to provide information relevant to each retiree’s unique health situation, anticipate the retiree’s health care needs, and respond to benefits or claims issues using the data and history unique to each individual.

- **Demonstrate Care for Retirees.** Three tiers of advocates are accountable for compassionately connecting retirees with the resources they need to reach optimal health and save money.

SPECIALIZED TO MEET RETIREE NEEDS

Using our understanding of the participant's situation and history, a participant is routed to one of five tiers of advocates. All tiers of advocates are responsible for resolving the member’s expressed concerns. This accountability is designed to ensure members receive a personalized, accurate answer the first time.

<table>
<thead>
<tr>
<th>Benefits Advocate</th>
<th>Is able to guide participants to local market resources, doctors, and specialists</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Is able to schedule annual wellness appointments and schedule appointments to help close any gaps in care.</td>
</tr>
<tr>
<td></td>
<td>Are familiar with unique, group-specific needs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Senior Service Advocate</th>
<th>Empowered to resolve persistent or complex participant issues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Detailed benefits and claims support to resolve complex or persistent service issues</td>
</tr>
<tr>
<td></td>
<td>Have access to additional tools to solve for participant needs without transfers or call backs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Clinical Advocate</th>
<th>Registered Nurse</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Licensed to advise on medical care and care coordination</td>
</tr>
<tr>
<td></td>
<td>Skilled in medication adherence</td>
</tr>
</tbody>
</table>

| Financial Advocate | Participants can lack support during times of great need in their lives. We have the unique opportunity to identify those who have the potential to be in financial distress and provide |

...
them with support.

- Empowered and equipped to assist participants with plan cost share amounts, provide a full understanding of out-of-pocket costs, educate participants on maximizing plan benefits, and identify available financial alternatives.

Social Advocate

Partnered with our Behavioral Health teams, the Social Advocate is equipped to identify and provide support to participants during the following social related issues:

- Loss of a loved one
- Diagnosis of illness
- Experiencing loneliness and/or sadness
- Support for Caregivers

**Advocate4Me Outcomes**

Recognized by Forbes magazine as “innovation with a human face,” Advocate4Me provides enhanced and personalized support and has yielded the following results:

| **Satisfaction** | 96.5% overall satisfaction with call center experience |
| **Performance** | More than 9.9% of clinical opportunities resulted in a direct scheduling of a clinical service |
| **Health care outcomes** | Assisted in scheduling over 55,000 visits |
| | Delivered over 1.1 million clinical opportunities (e.g. cancer screenings, annual wellness visits, diabetes management) |

**Medicare Advantage Clinical Programs**

Our clinical programs go beyond traditional Medicare plans to offer members the support and services they need to maneuver through an integrated system of care. Our goal is to provide members access to health care and resources at the right time with the right provider at the right place.

One of the unique aspects of our service delivery is that we are able to offer an integrated and seamless member experience that matches members with the appropriate health care resources and care management staff to comprehensively address their needs through one point of contact. Under our care and condition management programs, one nurse will manage all health care needs related to care management as well as any needs related to condition management.

We refer to our nurses’ ability to form a strong bond with retirees and address multiple health conditions as the “power of one.” Providing members with one primary nurse who understands and manages all of their clinical needs increases engagement, eliminates redundancy, minimizes handoffs and promotes the management of whole person philosophy.
Programs provided to our Medicare Advantage members include:

**STAY HEALTHY**

Our stay healthy prevention and wellness programs promote wellness, improve health literacy and support good health care decision-making. Our social worker team also supports member referrals that originate from NurseLine and Advocate4Me. Our social workers can help members adjust to and cope with problems they may experience and make sure the needs of our members are addressed. Specifically, the social worker role is to:

- Identify barriers to physical and emotional health
- Connect members and families to resources at the community, state, and federal level that remove/reduce barriers
- Address home safety issues

Our stay healthy solutions include:

<p>| <strong>HouseCalls</strong> | HouseCalls is an industry-leading clinical program designed to identify and target members who are chronically ill, hard-to-reach and have limited access to healthcare. Our licensed health care practitioners, who are UnitedHealth Group employees, visit retirees eligible for the program in their own home to assess medical history, conduct a physical exam, review medications, discuss health concerns and provide education on health-related issues. Post assessment we assist by coordinating member’s needs with the physician of record and other health care professionals and services. HouseCalls helps improve member satisfaction and quality outcomes, such as medication adherence, annual flu shots and coordination with primary physicians. |
| <strong>HouseCalls Pharmacy Referrals Program</strong> | The HouseCalls Pharmacy Referrals Program is designed to identify gaps in care and improve the member’s overall health. This program is triggered from a HouseCalls visit. If a new disease or clinical concern is identified from the HouseCalls assessment, an appointment will be scheduled with the member and one of our UnitedHealthcare clinical pharmacists or dietitians for a consultation. |
| <strong>Health Risk Assessments</strong> | Health Risk Assessments (HRAs) are used to assess the member’s medical conditions, including chronic conditions, medications, general health, utilization, mental health, and the need for psychosocial services or help at home. HRAs meet the initial and annual assessment requirement for CMS and also include medical and mental health history. |
| <strong>Preventive Care Reminders</strong> | The Preventive Care Reminders program targets members who have missed specific, high-priority preventive services recommended by sources such as the United States Prevention Services Task Force (USPTSF), the American Diabetes Association (ADA) and the Centers for Disease Control and Prevention (CDC). We identify such members based on claims and other administrative data. We contact targeted members through a combination of... |</p>
<table>
<thead>
<tr>
<th>Arizona State Retirement System</th>
<th>Medicare Advantage and Prescription Drug (MAPD) PPO Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Screening Exams and Immunizations</strong></td>
<td>mailings and/or telephonic IVR technologies to encourage them to seek appropriate services.</td>
</tr>
<tr>
<td><strong>Member Rewards Program</strong></td>
<td>We send health and wellness reminders to encourage all of our members to have an annual wellness visit with their physician and other important preventive screenings. We cover preventive services consistent with Medicare Part B coverage guidelines. By receiving screenings and preventive care during their annual visit and engaging in our programs, members have the tools for better self-management and improved outcomes.</td>
</tr>
<tr>
<td><strong>NurseLine</strong></td>
<td>Our rewards program motivates members to take action. The program rewards the achievement of certain milestone activities, for example, completing an annual wellness exam. The program contains characteristics shown by research to be effective at providing timely “nudges” to improve member engagement and help people make healthy lifestyle choices that reduce the likelihood of adverse health outcomes. Eligible members can receive merchant gift cards for completing various health care activities.</td>
</tr>
<tr>
<td><strong>Fitness Program</strong></td>
<td>NurseLine is a resource available 24 hours a day, seven days a week that empowers members to make better health care decisions. NurseLine’s registered nurses use their medical and clinical expertise to guide members and focus on the right care, right provider, right medications and right lifestyle. We help members identify an appropriate, high-quality provider and schedule an appointment when needed.</td>
</tr>
<tr>
<td><strong>Solutions for Caregivers</strong></td>
<td>Our senior fitness program offers an innovative blend of physical activity, healthy lifestyle education and socially-oriented programming that encourage members to take greater control of their health. Members engaging in the program receive:</td>
</tr>
<tr>
<td></td>
<td>- A free fitness center membership at a nearby participating location with access to conditioning classes, exercise equipment, pool, sauna and other available amenities. Amenities vary by location.</td>
</tr>
<tr>
<td></td>
<td>- Access to any participating fitness center while traveling</td>
</tr>
<tr>
<td><strong>hi HealthInnovations Hearing Aid Discounts</strong></td>
<td>Solutions for Caregivers is a comprehensive program designed to support family caregivers in helping aging family members stay healthy, function as independently as possible, live with dignity and remain in the community for as long as possible. The program offers professional assessment, consultation and care management services to people who have long term or advanced illness, are older, or have disabilities, while providing support and consultation to their caregivers.</td>
</tr>
<tr>
<td></td>
<td>The hi HealthInnovations hearing discount program helps members maintain hearing health and stay engaged in life. Over 90 percent of people with hearing loss can be helped with hearing aids, but usage has been low (10 percent to 20 percent) – mainly because of cost. With hi HealthInnovations, members will have exclusive discounts on quality hearing aids from $599 to $729</td>
</tr>
</tbody>
</table>
(behind the ear) to $799 (in the canal) each, depending on the recommended hearing aid model, potentially saving them thousands of dollars.

<table>
<thead>
<tr>
<th>Web-based Health Resources</th>
<th>Members can navigate <a href="http://www.uhcretiree.com">www.uhcretiree.com</a> for health and wellness information including topic related articles, quizzes and videos. Our extensive online resources help our members achieve healthier lifestyles while gaining the peace of mind that comes from being better informed on health care topics such as aging, nutrition, exercise, treatment options, weight and stress management and dealing with life's mental and physical challenges.</th>
</tr>
</thead>
</table>

<table>
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<tr>
<th>Routine Podiatry (Standard Plans)</th>
<th>Older adults may be susceptible to a number of foot conditions. As part of the plan, we cover up to six routine podiatry visits per year, which includes preventive care.</th>
</tr>
</thead>
</table>

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<tr>
<th>Diabetes Outreach Program</th>
<th>One of our key CMS Star ratings initiatives is our Diabetes Outreach Program. This program is designed to educate eligible low and moderate risk members on the importance and relevance of achieving good diabetes control. Telephonic outreach is conducted by a registered dietitian working in collaboration with registered nurses. Engaged members receive diabetes education and strong encouragement to see their PCP, and if needed, an endocrinologist. Dietitians assess the need for ongoing education with a diabetes educator for personalized care and diabetes self-management education program.</th>
</tr>
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### Return to Health

We optimize our clinical outcomes to help engage the member to better understand their needs and work effectively with their physicians towards the ultimate goal of returning to health. Our return to health solutions include:

<table>
<thead>
<tr>
<th>Clinical Intake: Inpatient/Outpatient Services</th>
<th>Our clinical intake provides a nurse to assess the medical necessity or appropriateness of services as they are rendered in acute inpatient and skilled nursing facility. The inpatient care management nurses perform on-site or telephonic concurrent review using a nationally recognized set of care guidelines.</th>
</tr>
</thead>
</table>

<table>
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<tr>
<th>Behavioral Health</th>
<th>Our behavioral health management program reflects an integrated approach with our medical team to identify, engage and manage members’ behavioral health concerns. Our behavioral health care programs are led by experienced geriatric psychiatrists and licensed behavioral health clinicians with significant geriatric expertise. Our medical-behavioral integration specialist (care manager) is highly skilled and will coordinate behavioral health referrals from our HouseCalls program and other clinical programs.</th>
</tr>
</thead>
</table>

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<tr>
<th>Secondary Level of Care</th>
<th>Secondary level of care provides a nurse to telephonically monitor the skilled nursing facility's/nurse's communication regarding the care and discharge plan with the member, family and caregiver to</th>
</tr>
</thead>
</table>
Prior Authorization/notification involves our prior assessment that a requested service is both clinically appropriate and a covered benefit.

Intake coordinators receive the requests for review and transfer the request to the appropriate area (such as clinical coverage review or inpatient care management). The initial clinical review is performed by a registered nurse. If approval is not forthcoming at the initial clinical review, secondary review is performed by a medical director.

The Post-Acute Transition Program (PAT) anticipates and adapts for transitions of care and provides targeted interventions for individuals who transition from hospitals to short-term stays at a skilled nursing facility (SNF).

The goal of this individualized, whole-person approach is to reduce the length of stay at the SNF by removing any barriers to discharge so the member can safely return home.

**Living with Illness**

Our clinical offerings support members who are living with multiple complex conditions or comorbidities and who can benefit from guidance and care coordination. Our living with illness solutions include:

- **Community Transitions Program**: Community Transitions Program offers a collaborative process designed to reduce complications by smoothing the transition from hospital to home. Program staff coordinates transitions in care or changes in member health status to avoid potential adverse outcomes and unnecessary readmissions.

- **High-Risk Case Management**: High-Risk Care Management is a national telephonic, chronic care management program of nurse care managers providing targeted interventions for members identified with chronic conditions and or frequent hospitalizations. Members are “high risk” based on utilization and a designated risk score. Care managers monitor general health status, current conditions, mobility, medications and risk for admission. The program supports members by helping them access care, coordinate services and learn to better manage their chronic conditions.

- **Diabetes Management**: Our Diabetes Management Program addresses members with high risk diabetes and related, yet common, comorbidities. Focusing on those members at highest risk for further decline and complications, the program addresses each member’s clinical needs, helping them achieve optimal care.

  We use predictive modeling systems and member claims data to identify possible gaps in care such as missing lab tests, prescription medications and screenings. Members may also be identified through health risk assessments, our care management process, inpatient and outpatient notification, direct referral, and through NurseLine.

  Upon identification of an individual at risk, we deliver the program’s components through a combination of mailings and telephonic...
### Congestive Heart Failure Management

Our Congestive Heart Failure (CHF) program helps members manage their illness through a unique combination of home biometric monitoring, education outreach and care coordination. We use various integrated data referral sources to identify eligible members, including predictive modeling, health assessments, direct referrals (self, physician, etc.), inpatient and outpatient notifications, nurse triage, claims data (medical, pharmacy, lab) and care management. Once identified, members are offered appropriate levels of engagement and intervention based on the severity of their condition.

### Transplant Resources

Our transplant management program drives positive clinical outcomes by addressing the complex needs of older adults who are facing transplants. We cover all phases of retiree health care from evaluation, pre-transplant, transplant, post-transplant and 12-month follow-up health care. Our clinical experience significantly reduces overall medical costs. The Centers of Excellence (COE) network offers unmatched economic performance at the nation’s leading clinical institutions. As our flagship centers offering superior care, we have 127 COEs and 560 transplant programs available to our Medicare Advantage retirees.

A secondary network that dramatically expands the opportunities for savings, our Transplant Access Program (TAP) addresses the challenge of when a retiree opts to use a program that is not in our transplant network. TAP contracts are negotiated with programs that deliver the same financial rate access, however they do not meet the same high clinical criteria required for a COE. TAPs meet certain minimal volume and outcome criteria that are at least as stringent as CMS and the American Society for Blood and Marrow Transplantation standards, where applicable. We have 88 TAP facilities and 248 transplant programs in place for Medicare Advantage retirees.

### End of Life and Specialty Care Management

We provide compassionate support to retirees and families experiencing catastrophic health conditions through holistic, preference-sensitive, health management programs, palliative care services and end-of-life support. Our end-of-life program includes the following components:

**Advanced Illness**

UnitedHealthcare has offered an advanced illness care management program since 2006. We have served over 16,000 retirees and their caregivers at the end-of-life. The advanced Illness care model utilizes a team approach to provide comprehensive care for individuals facing life-limiting illness generally defined as the last 12 months of life. The model focuses on improving the retiree’s quality of life by honoring and supporting the retiree’s traditions, attitudes and beliefs regarding life and health and by addressing issues of physical, emotional and spiritual comfort. A structured approach to educating retirees and providers about issues in caring for...
advanced illness can lead to better communication and a better understanding of retiree preferences. As a result, this leads to more realistic expectations, greater satisfaction on the part of retirees and families, improved symptom control, better allocation of resources and extended quality of life.

**UnitedHealthcare** has offered an End Stage Renal Disease (ESRD) care management program since 2006. We have served over 40,000 Medicare Advantage retirees with ESRD. Our predictive model identifies retirees prior to starting dialysis. The foundations of our ESRD care management program are self-management, as well as communication and collaboration with the dialysis facilities and the treating nephrologist. Nutrition, treatment of co-morbid conditions (especially diabetes and hypertension), infection prevention (including flu and pneumonia vaccination), financial assistance, behavioral health (depression screening) and advanced care planning are all components of UnitedHealthcare’s ESRD program.

**MEDICARE PART D CLINICAL PROGRAMS**

Our retiree-focused clinical programs positively influence prescription drug use, improve patient safety, quality of life and decrease overall health care costs. These programs include:

**UTILIZATION MANAGEMENT PROGRAMS**

Our utilization management (UM) programs apply coverage criteria and claims payment edits to help facilitate safe, appropriate and cost-effective medication use. Our NP&TC provides consultation and recommendations in support of UM guideline development and evaluation. UM programs focus primarily on medications that pose risk for inappropriate utilization or have therapeutic equivalents at a lower cost.

Our utilization management programs include:

**PRIOR AUTHORIZATION**

The primary goal of our prior authorization program is to promote safe, effective and appropriate use of prescription medications. Prescription medications requiring prior authorization must satisfy NP&TC approved criteria, based on clinical evidence, such as national guidelines and supporting clinical literature, before being covered by the plan. The required authorization encourages the use of lower-cost alternative drugs when these drugs meet the same clinical need as higher-priced drugs.

Drugs can require prior authorization if there are coverage, efficacy or safety concerns. For example, in certain circumstances, some drugs are billed to Medicare Part B, and in other circumstances, billed to Medicare Part D. Prior authorization is used so the plan collects the necessary information to make the appropriate coverage determination.

**STEP THERAPY**

Step therapy programs focus on specific drugs and drug classes to promote utilization of effective, safe and less costly first-line medications. Ultimately, this program helps both encourage improved member behavior patterns and awareness of appropriate drug use and influence physician prescribing patterns.
Step therapy is administered through systems logic at the point of service. The claims processing system searches a member’s claims history to determine satisfaction of the designated criteria before the claim is paid. If not met, a claim reject response is returned to the dispensing pharmacy. For example, if a drug is considered to be a second-line drug and has step therapy requirements, the claim will not process unless the member has a history of a first line treatment. If the requirement is met, the claim will process at the appropriate plan copayment amount. If the claim is not paid, members or their physicians have the opportunity to submit a prior authorization request for clinical review.

QUANTITY LIMITS

Quantity limits help promote safe and appropriate use of medications by preventing excessive dosages and/or unnecessary, prolonged periods of therapy. A quantity limit is placed on a drug for two primary reasons. One is to ensure safety where well-established dosing limits exist (e.g., narcotic analgesics that contain acetaminophen). The second is to encourage dose optimization to maximize cost-effective dosing. For example, when a drug is available in multiple strengths (e.g., 10 mg and 20 mg), a member is encouraged, through a quantity limit edit, to use one 20 mg tablet rather than two 10 mg tablets resulting in no clinical difference for the member and cost savings for the plan.

Quantity limits are determined by the NP&TC based on dosages defined by the FDA or by accepted off-label dosing based on reliable scientific studies.

DRUG UTILIZATION REVIEW

As drug costs rise, drug utilization review (DUR) programs can help control drug spending and overuse by identifying physician-prescribing patterns, pharmacy fraud and abuse and inappropriate or dangerous utilization patterns of members. We strive to improve the quality of patient care through the appropriate, safe and effective use of prescription drugs. By evaluating drug use frequency through prescribing standards and system edits, our specialized DUR programs promote safe prescription dispensing and cost savings while aiming to optimize drug therapy and patient health outcomes.

Our drug utilization programs include the following three types:

PROSPECTIVE DRUG UTILIZATION REVIEW

Prospective DUR promotes utilization of appropriate and cost-effective medications by steering members to medications that are considered safe and effective within their demographic. For example, prospective DUR discourages use of high risk medications in the elderly when the risk of taking the medication typically outweighs the benefits. Prospective DUR is a part of our formulary management strategy; it includes drug coverage limitations, generic utilization, tiering, quantity limits, step therapy and prior authorization.

CONCURRENT DRUG UTILIZATION REVIEW

Concurrent DUR is applied at the point of service or before a prescription is dispensed and evaluates the prescription based on established clinical criteria. Prescriptions determined as potentially unsafe or inappropriate may be subject to drug utilization management programs. The concurrent DUR screens for, but is not limited to, the following:

- Therapeutic duplication, including duplicate prescription and duplicate therapy
- Age or gender related contraindications
- Over-utilization or under-utilization, including minimum or maximum daily dose, minimum or maximum quantity per days’ supply
- Clinical abuse or misuse
- Drug-drug interactions
Incorrect drug dosage or duration of drug therapy

Drug-allergy contraindications

Drug-diagnosis caution screening

Drug-inferred pregnancy screening

**Retrospective Drug Utilization Review**

Our retrospective DUR program augments our concurrent DUR program, providing a safety net for our Medicare members. Pharmacy claims data is reviewed to identify members who may benefit from clinical interventions. The program addresses physician prescribing patterns that can be influenced to improve quality of care, cost savings and clinical outcomes. They include interventions aimed at increasing or optimizing appropriate use of selected under-used medications and reducing over-utilization of inappropriately prescribed medications. The following are examples of our evidence-based retrospective clinical interventions:

- **Drug Interaction Alerts:** This provider-based program is designed to detect significant, patient-specific drug interactions to reduce the risk of adverse events.

- **Geriatric RxMonitor:** This provider-based intervention is designed to identify high-risk medication use and potentially harmful drug-disease interactions in the elderly.

- **Narcotic High Utilization:** This program is provider-based and designed to minimize the occurrence of diversion and inappropriate use of narcotic medications. The program targets providers of members on narcotic medications that may require evaluation.

**Medication Therapy Management Program**

We manage an integrated Medication Therapy Management (MTM) program designed for our Medicare Part D population. There are no additional costs or fees for this program. The program promotes safe, appropriate and affordable medication use by providing education and consultation to targeted retirees, their caregivers and their prescribing physicians. Our program offers a holistic approach to improving medication use by addressing all types of drug-related problems including overuse, underuse and misuse.

Services include, but are not limited to:

- Providing member and physician education

- Detecting clinically significant drug interactions

- Detecting medications that are considered inappropriate in older individuals

- Detecting patterns of over- and under-utilization of prescribed medications

- Maximizing effectiveness of medication therapy
Key components include:

**COMPREHENSIVE MEDICATION REVIEW**

This program includes individualized member counseling by pharmacists to help address drug therapy concerns. Members who have certain multiple core chronic conditions and are taking multiple medications may be identified for the program. Following the medication review and clinical assessment, an individualized Medication Action Plan is sent to the member outlining medication-related issues identified and recommendations. Providers are also contacted when clinically significant issues such as when dose or therapy adjustments are identified. The review is intended to identify and address drug-related problems including:

- Adverse drug interactions
- Drug-disease interactions
- Duplicate therapy
- Medication adherence
- Gaps in care

**ENROLLMENT AND TARGETING**

Members meeting specific criteria are identified for the program. The targeting criteria are as follows:

- Members have at least three of the following five chronic conditions:
  - Diabetes
  - Dyslipidemia
  - Heart Failure
  - Hypertension
  - Rheumatoid Arthritis
- Member takes eight or more chronic Medicare Part D medications
- Member is projected to reach a Medicare Part D cost threshold of $3,507 in 2016

**PROGRAM COMMUNICATIONS AND TIMELINE**

Members are identified for the program each quarter and receive an MTM Welcome Letter offering a Comprehensive Medication Review (CMR) within 60 days. Members that do not respond to the invitation to participate in a CMR will receive additional outreach via outbound phone calls.

**POLYPHARMACY**

In addition to the member-facing interventions outlined above, we also deploy a provider-based intervention designed to identify and address drug-drug, interactions, drug-disease interactions and duplicate therapy. Provider communications are sent via fax to expedite the receipt of the pertinent clinical information.

In addition to Medication Therapy Management (MTM) and retrospective Drug Utilization Review, we provide Drug Therapy Management programs to address gaps in care.
**Gaps in Care:** These programs work to identify and close potential medication therapy gaps in key disease categories. These include bone health, diabetes and rheumatoid arthritis. Specifically, the program addresses through letters to members and providers:

- ACE inhibitor/Angiotensin Receptor Blocker (ARB) use in diabetes and hypertension and/or nephropathy
- Disease modifying anti-rheumatic drug (DMARD) use in rheumatoid arthritis
- Osteoporosis therapy in post-fracture patients

**Medical Adherence**
We utilize a multi-faceted approach to assist members in maintaining adherence to their medication therapy. We provide a Concierge Medication Refill Reminder service through an outbound calls we help members call the pharmacy to refill their prescriptions and have them enroll in refill reminder programs if offered by their pharmacy. Through our retail pharmacy partnership pharmacists engage members at point of service and/or actively work directly with physicians to close medication gaps. We also provide automated refill reminder calls.

**Transition Services**
A smooth implementation is critical to the success of any new retiree health program and together we develop a project plan outlining action items paired with delivery dates and responsibilities for completing each task. Since we recommend 120 days to implement, the project plan is developed collaboratively for a smooth transition on your requested service effective date. A collaborative implementation is proven to reduce complications for you during ongoing administration of your plan. The commitment of your time varies depending on the complexities of the case, retiree communications and enrollment method. To ensure a seamless transition, we hold a kickoff meeting to define key deliverable dates, develop a communication strategy and timeline and walk through the implementation process. Going forward, we have a weekly touch point call with you to monitor all tasks for progress. Below is an overview of our retiree-focused account management team (AMT), including key members and their core responsibilities.

**Summary**
We are dedicated to improving the health of your retirees and to offering you innovative solutions. We believe Group Medicare Advantage plans will continue to be a strong option in the coming years given our long-term approach to market selection and expertise in benefit design. Our innovative clinical programs, broad organizational capabilities and national scalability enable us to continue offering industry-leading plans. We continue to innovate and develop new approaches to medical management that ultimately serve customers and their retirees. We are confident that our Group Medicare Advantage PPO is a flexible solution and look forward to the opportunity to demonstrate our capabilities and answer any questions you have.
Pro Forma
Pro Forma Estimate of First-Year Utilization – Three Year Drawdown

### RRA Refund Amounts by Plan and Year

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Medicare Advantage HMO</th>
<th>% of RRA</th>
<th>RRA Amount Generated to Plan Refund Pool</th>
<th>Medicare Advantage HMO</th>
<th>% of RRA</th>
<th>RRA Amount Generated Senior Supplement</th>
<th>Medicare Advantage HMO</th>
<th>% of RRA</th>
<th>RRA Amount Generated Non-Medicare</th>
<th>Medicare Advantage HMO</th>
<th>% of RRA</th>
<th>RRA Amount Generated</th>
<th>Medicare Advantage HMO</th>
<th>% of RRA</th>
<th>RRA Amount Generated to Plan Refund Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$12,953,384</td>
<td>50.58%</td>
<td>$7,837,218.75</td>
<td>$12,657,048</td>
<td>49.42%</td>
<td>$7,657,480.25</td>
<td>$12,657,048</td>
<td>49.42%</td>
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<td>39.38%</td>
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<td>$0.00</td>
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</table>

Total by Plan: $74,898,517

---

### Calendar Year 2018 Enrollments

- Medicare Advantage HMO - Single: 16,265
- Medicare Advantage HMO - Dual: 3,744
- Medicare Advantage HMO - Triple: 5
- Senior Supplement - Single: 9,949
- Senior Supplement - Dual: 1,784
- Senior Supplement - Triple: 6
- Choice/Navigate - Single: 5,677
- Choice/Navigate - Family: 1,169
- Choice Plus - Single: 115
- Choice Plus - Family: 18

---

### Medicare Advantage HMO Aggregate Calculation

\[
\text{Medicare Adv HMO Corpus} \times 33\frac{1}{3}\% = \text{Single Coverage Payment} \\
\text{MedAdvSingle Coverage} + \frac{(MedAdvFamily\ Individ\ Covered\ Count)}{16,265 + (3,744 \times 2 + 5 \times 3)} = \$874.62
\]

### Senior Supplement Aggregate Calculation*

\[
\text{Sr Supplement Corpus} \times 33\frac{1}{3}\% = \text{Single Coverage Payment} \\
(SrSuppSingle Coverage + (SrSuppFamily\ Individ\ Covered\ Count)) = \$1,230.98
\]

### Non-Medicare Aggregate Calculation

\[
\text{Non-Med Corpus} \times 33\frac{1}{3}\% = \text{Single Coverage Payment} \\
(NonMedFamily\ Coverage\ *\ \text{Ratio of}\ NonMedFamily\ Premium/NonMedSingle\ Premium) = \$58.34
\]

---

*Senior Supplement Enrollees converting Medicare Advantage PPO in 2019. The RRA reduction will be applied to Medicare Advantage PPO premium.

---

*Through June 30, 2018

Corpus of RRA: $113,776,641
Pro Forma Estimate of First-Year Utilization – Three Year Drawdown

<table>
<thead>
<tr>
<th>Medicare Advantage HMO Monthly Premium</th>
<th>Medicare Advantage PPO Monthly Premium</th>
<th>Non-Medicare Monthly Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RRA Reduction Calculation</strong></td>
<td><strong>RRA Reduction Calculation</strong></td>
<td><strong>RRA Reduction Calculation</strong></td>
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<tr>
<td>Medicare Advantage Aggregate Calculation</td>
<td>Senior Supplement Aggregate Calculation</td>
<td>Non-Medicare Aggregate Calculation</td>
</tr>
<tr>
<td>Length of Premium Reduction (in months)</td>
<td>Length of Premium Reduction (in months)</td>
<td>Length of Premium Reduction (in months)</td>
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<tr>
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<td>$1,230.98</td>
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<td>12</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>$72</td>
<td>$4</td>
</tr>
</tbody>
</table>

2019 Medicare Advantage HMO Monthly Premium

| **Single Coverage** | $169 |

2019 Medicare Advantage PPO Monthly Premium

| **Single Coverage** | $269 |

2019 Non-Medicare Monthly Premium

| **Single Coverage** | $749 - $1,333 |

2019 Medicare Advantage HMO Monthly Member Cost

| **Single Coverage Premium – Single Monthly Premium Reduction** | $97 |

2019 Medicare Advantage PPO Monthly Member Cost

| **Single Coverage Premium – Single Monthly Premium Reduction** | $167 |

2019 Non-Medicare Monthly Member Cost

| **Single Coverage Premium – Single Monthly Premium Reduction** | $745 - $1,329 |

Calendar Year 2019 Annual RRA Reduction Amounts:

| Medicare Advantage HMO - Single = $874.62 | Medicare Advantage PPO - Single = $1,230.98 | Choice/Navigate - Single = $58.34 |
| Medicare Advantage HMO - Dual = $1,749.24 | Medicare Advantage PPO - Dual = $2,461.96 | Choice/Navigate - Family = $116.68 |
| Medicare Advantage HMO - Triple = $2,623.86 | Medicare Advantage PPO - Triple = $3,692.94 | Choice Plus - Single = $58.34 |
|                                           |                                           | Choice Plus - Family = $116.68 |

Total Distribution: $37,925,547

Calendar Year 2019 Monthly RRA Reduction Amounts:

| Medicare Advantage HMO - Single = $97 | Medicare Advantage PPO - Single = $167 | Choice/Navigate - Single = $4 |
| Medicare Advantage HMO - Dual = $194 | Medicare Advantage PPO - Dual = $334 | Choice/Navigate - Family = $8 |
| Medicare Advantage HMO - Triple = $291 | Medicare Advantage PPO - Triple = $501 | Choice Plus - Single = $4 |
|                                           |                                           | Choice Plus - Family = $8 |

Total Distribution: $37,925,547
Agenda Item #5
MEMORANDUM

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

FROM: Ms. Jessica Thomas, Government Relations Officer

DATE: July 18, 2018

RE: AGENDA ITEM #5: Presentation, Discussion and Appropriate Action Regarding Rulemaking Initiatives

Purpose:
Discuss the proposed rule language regarding new membership rules in a new Article 10.

Recommendation:
Recommend proceeding with the rulemaking as proposed.

Background:
In August 2017, the ASRS received approval from the Governor's office to proceed with rulemaking in order to adopt new rules related to membership. Staff has drafted a Notice of Docket Opening and a Notice of Proposed Rulemaking containing six new rules clarifying when an employee of an ASRS employer becomes an ASRS member and how a political subdivision or political subdivision entity may voluntarily join the ASRS. The rules also outline the reporting requirements for employers and how a new employer may purchase prior service credit for its members upon joining the ASRS.

Attachments: Notice of Rulemaking Docket Opening, Article 10, Membership
Notice of Proposed Rulemaking, Title 2, Chapter 8, Article 10, Membership
Notice of Rulemaking
Membership
NOTICE OF RULEMAKING DOCKET OPENING
ARIZONA STATE RETIREMENT SYSTEM

PREAMBLE

1. Title and its heading: 2, Administration
   Chapter and its heading: 8, State Retirement System Board
   Article and its heading: 10, Membership
   Section number: R2-8-1001, R2-8-1002, R2-8-1003, R2-8-1004, R2-8-1005, and R2-8-1006
   (Sections may be added, deleted, or further modified as necessary.)

2. The subject matter of the proposed rule:

A.R.S. § 38-711(23) defines member as an employee of the Employer who is “engaged to work” at least 20 hours per week for at least 20 weeks per fiscal year. These rules will clarify which employees meet ASRS membership requirements. These rules will increase understandability of how an employee may become an ASRS member, but the rules do not impose any additional requirements or burdens on members. Additionally, these rules will clarify the steps a potential Employer must take in order to join the ASRS.

3. A citation to all published notices relating to the proceeding:

None

4. The name and address of agency personnel with whom persons may communicate regarding the rulemaking:

Name: Jessica A.R. Thomas, Rules Writer
Address: Arizona State Retirement System
         3300 N. Central Ave., Ste. 1400
         Phoenix, AZ 85012-0250
Telephone: (602) 240-2039
E-Mail: JessicaT@azasrs.gov

5. The time during which the agency will accept written comments and the time and place where oral comments may be made:

The Board will accept comments during business hours at the address listed in item 4. Information regarding an oral proceeding will be included in the Notice of Proposed Rulemaking.

6. A timetable for agency decisions or other action on the proceeding, if known:

To be determined.
NOTICE OF PROPOSED RULEMAKING
TITLE 2. ADMINISTRATION
CHAPTER 8. STATE RETIREMENT SYSTEM BOARD

PREAMBLE

1. **Sections Affected**

<table>
<thead>
<tr>
<th>Article</th>
<th>Rulemaking Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 10</td>
<td>New Article</td>
</tr>
<tr>
<td>R2-8-1001</td>
<td>New Section</td>
</tr>
<tr>
<td>R2-8-1002</td>
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<tr>
<td>R2-8-1003</td>
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<tr>
<td>R2-8-1004</td>
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<td>R2-8-1005</td>
<td>New Section</td>
</tr>
<tr>
<td>R2-8-1006</td>
<td>New Section</td>
</tr>
</tbody>
</table>

2. **Citations to the agency’s statutory rulemaking authority to include the authorizing statute (general) and the implementing statute (specific):**

- Authorizing statute:  A.R.S. § 38-714(E)
- Implementing statutes:  A.R.S. §§ 38-701 et seq., 38-711, and 38-729

3. **Citations to all related notices published in the Register as specified in R1-1-409(A) that pertain to the record of the proposed rules:**

- Notice of Docket Opening:  24 A.A.R. XX

4. **The agency’s contact person who can answer questions about the rulemaking:**

- Name: Jessica A.R Thomas, Rules Writer
- Address: Arizona State Retirement System, 3300 N. Central Ave., Ste. 1400, Phoenix, AZ 85012-0250
- Telephone: (602) 240-2039
- E-Mail: JessicaT@azasrs.gov

5. **An agency’s justification and reason why a rule should be made, amended, repealed, or renumbered, to include an explanation about the rulemaking:**
A.R.S. § 38-711(23) defines member as an employee of the Employer who is “engaged to work” at least 20 hours per week for at least 20 weeks per fiscal year. These rules will clarify which employees meet ASRS membership requirements. These rules will increase understandability of how an employee may become an ASRS member, but the rules do not impose any additional requirements or burdens on members. Additionally, these rules will clarify the steps a potential Employer must take in order to join the ASRS.

6. **A reference to any study relevant to the rule that the agency reviewed and proposes either to rely on or not rely on in its evaluation of or justification for the rule, where the public may obtain or review each study, all data underlying each study, and any analysis of each study and other supporting material.**

None

7. **A showing of good cause why the rulemaking is necessary to promote a statewide interest if the rulemaking will diminish a previous grant of authority of a political subdivision of this state:**

Not applicable

8. **The preliminary summary of the economic, small business, and consumer impact:**

The ASRS promulgates rules that allow the agency to provide for the proper administration of the state retirement trust fund. ASRS rules affect ASRS members and ASRS employers regarding how they contribute to, and receive benefits from, the ASRS. The ASRS effectively administrates how public-sector employers and employees participate in the ASRS. As such, the ASRS does not issue permits or licenses, or charge fees, and its rules have little to no economic impact on private-sector businesses, with the exception of some employer-partner political subdivision and political subdivision entities, which have voluntarily contracted to join the ASRS. Thus, there is little to no economic, small business, or consumer impact, other than the minimal cost to the ASRS to prepare the rule package. The rules will have minimal economic impact, if any, because they merely clarify when an employee of an Employer may be eligible for ASRS membership and how a potential Employer may join the ASRS. Such clarification will increase understandability of when an employee becomes a member of the ASRS and how a potential Employer may join the ASRS, which will increase the effectiveness and efficiency of the administration of the ASRS, thus, reducing the regulatory burden and the economic impact.

9. **The agency’s contact person who can answer questions about the economic, small business, and consumer impact statement:**

Name: Jessica A.R. Thomas, Rules Writer  
Address: Arizona State Retirement System  
3300 N. Central Ave., Ste. 1400  
Phoenix, AZ 85012-0250  
Telephone: (602) 240-2039  
E-Mail: JessicaT@azasrs.gov
10. The time, place, and nature of the proceedings for to make, amend, repeal, or
renumber the rule, or if no proceeding is scheduled, where, when, and how persons
may request and oral proceedings on the proposed rule:

An oral proceeding regarding the proposed rule will be held as follows:

Date: October 2, 2018
Time: 9:00 a.m.
Location: Arizona State Retirement System
10th Floor Board Room
3300 N. Central Ave.
Phoenix, AZ 85012-0250

11. All agencies shall list other matters prescribed by statute applicable to the specific
agency or to any specific rule or class of rules. Additionally, an agency subject to
Council review under A.R.S. §§ 41-1052 and 41-1055 shall respond to the following
questions:

None

a. Whether the rule requires a permit, whether a general permit is used and if not,
the reasons why a general permit is not used:

None of the rules requires a permit.

b. Whether a federal law is applicable to the subject of the rule, whether the rule is
more stringent than federal law, and if so, citation to the statutory authority to
exceed the requirements of federal law:

There are no federal laws applicable to these rules.

c. Whether a person submitted an analysis to the agency that compares the rule’s
impact on the competitiveness of business in this state to the impact on business
in other states:

No analysis was submitted.

12. A list of incorporated by reference material as specified in A.R.S. § 41-1028 and its
location in the rules:

None

13. The full text of the rules follows:
# TITLE 2. ADMINISTRATION
## CHAPTER 8. STATE RETIREMENT SYSTEM BOARD
### ARTICLE 10. MEMBERSHIP

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Article 10.</td>
<td>Membership</td>
</tr>
<tr>
<td>R2-8-1001.</td>
<td>Definitions</td>
</tr>
<tr>
<td>R2-8-1002.</td>
<td>Employee Membership</td>
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<tr>
<td>R2-8-1003.</td>
<td>Charter School Employer Membership</td>
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<tr>
<td>R2-8-1004.</td>
<td>Other Political Subdivision and Political Subdivision Entity Employer Membership</td>
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<td>R2-8-1005.</td>
<td>Employer Reporting</td>
</tr>
<tr>
<td>R2-8-1006.</td>
<td>Prior Service Purchase Cost for New Employers</td>
</tr>
</tbody>
</table>
ARTICLE 10. MEMBERSHIP

Article 10. Membership

R2-8-1001. Definitions

The following definitions apply to this Article unless otherwise specified:

1. “218 Agreement” means the same as in R2-8-701.

2. “218 Resolution” means written authorization for a potential Employer to provide Social Security and Medicare or Medicare-only coverage to employees under the provisions of §418 of the Social Security Act.

3. “Acceptable Documentation” means the same as in R2-8-115.

4. “Designated Employer Administrator” means an individual designated by the Employer and who has authorized access to the Employer’s secure ASRS account in order to fulfill the Employer’s responsibilities.

5. “Engaged To Work” means the earlier of:
   A. The date the employee begins rendering services for the Employer and the Employer intends the employee to work for at least 20 hours a week for at least 20 weeks in a fiscal year or:
   B. The week an employee renders services to an Employer for at least 20 hours a week for at least 20 weeks in a fiscal year.


7. “State Social Security Administrator” means the ASRS staff designated by the Board to approve 218 Agreements.

8. “Week” means 12:01 a.m. on Sunday through 11:59 p.m. on the following Saturday.
R2-8-1002. Employee Membership

A. For purposes of active member eligibility, an employee of an Employer becomes a member of the ASRS pursuant to A.R.S. § 38-711(23) when the employee is Engaged To Work for the Employer.

B. If the Employer does not provide an accurate date for which an employee was Engaged To Work pursuant to subsection (A), the ASRS shall determine that an employee’s membership effective date will be the member’s hire date, if provided by the Employer and within 30 days of the first pay period end date after the hire date.

C. If the Employer does not provide a hire date pursuant to subsection (B), the effective date is the first pay period end date of contributions received for that member.

D. Unless a member terminates employment or retires from the ASRS, for purposes of determining active member eligibility, a member will continue to be an active member for the remainder of a fiscal year in which the employee met the requirements to be an active member in the ASRS with that Employer pursuant to A.R.S. § 38-711.

E. Within 30 days of employment, an employee who is eligible for ASRS membership pursuant to A.R.S. § 38-711(23) shall create a secure ASRS account and submit to the ASRS through the employee’s secure ASRS account the following information:

1. The Employee’s full name;
2. The Employee’s Social Security number;
3. The Employee’s date of birth;
4. The Employee’s gender;
5. The Employee’s marital status;
6. The Employee’s primary phone number;
7. The Employee’s personal email address;
8. The Employee’s current mailing address; and
9. The Employee’s designated beneficiary.

F. Within 30 days of a change in the member’s name, the member shall submit to the ASRS through the member’s secure ASRS account a Change of Name form that contains:
   1. The member’s full name that is on file with the ASRS;
   2. The member’s Social Security number;
   3. The member’s current mailing address;
   4. The member’s date of birth;
   5. The member’s personal email address;
   6. The member’s primary phone number;
   7. The member’s gender;
   8. The member’s marital status;
   9. The member’s retired, active, inactive, or LTD status with the ASRS;
   10. The member’s new full name;
   11. The type of legal document establishing the member’s new name;
   12. A copy of the legal document establishing the member’s new name; and
   13. The member’s dated signature.

G. Within 30 days of a change in the member’s contact information, the member shall notify the ASRS of the change.

H. If an employee of an Employer meets the requirements of A.R.S. § 38-727(A)(8), the employee may elect to not participate in the ASRS.
Within 30 days after employment, an Employer whose employee is 65 years of age or older as of the date of employment and who has elected not to participate in the ASRS pursuant to subsection (H), shall submit to the ASRS through the Employer’s secure ASRS account a 65+ Membership Waiver form that contains:

1. The employee’s full name;
2. The employee’s Social Security number;
3. The employee’s current mailing address;
4. The employee’s date of birth;
5. The employee’s dated signature acknowledging the following statements:
   a. The employee is electing to waive any rights to ASRS membership and the employee will not be eligible for any retirement, disability, or health insurance benefits offered by the ASRS;
   b. The employee is not a member of the ASRS as of the date of employment; and
   c. The employee understands that this election is irrevocable for the remainder of the employee’s employment with that Employer and the time the employee works under this election is not eligible for purchase in the ASRS;
6. The Employer’s name;
7. The date employee’s employment began; and
8. The name and dated signature of the Employer’s representative.
A corrected and completed 65+ Membership Waiver form must be resubmitted to the
ASRS pursuant to subsection (I) within 14 days of the date the ASRS notifies the
employee that the 65+ Membership Waiver form is incorrect or incomplete.

R2-8-1003. Charter School Employer Membership

A. Pursuant to A.R.S. § 15-187(C), a charter school in Arizona is considered a political
subdivision that is eligible to participate in the ASRS if the charter school is sponsored
by:
   1. A state university;
   2. A community college district;
   3. A group of community college districts;
   4. The state board of education; or
   5. The state board for charter schools.

B. In order to participate as an Employer in the ASRS, a charter school shall notify the
ASRS in writing of the charter school’s intent to join the ASRS and provide:
   1. A copy of the current and active Charter Contract, including any amendments,
      which is approved by the entity sponsoring the charter school pursuant to
      subsection (A);
   2. Documentation showing the name and location of all schools authorized by the
      Charter Contract identified in subsection (B)(1); and
   3. Documentation showing the charter school board’s approval to pursue ASRS
      membership and complete ASRS requirements for membership.

C. Upon receipt of the information contained in subsection (B), the ASRS shall determine if
the charter school is eligible to participate in the ASRS. If the charter school is not
eligible to participate in the ASRS, the ASRS shall send the charter school a notice of ineligibility. If the charter school is eligible to participate, the ASRS shall provide the charter school a Potential New Employer Letter.

D. In order to participate as an Employer in the ASRS, an eligible charter school shall submit to the ASRS the following original documents by the due date listed on the Potential New Employer Letter:

1. The current retirement plan or a statement signed by the designated authorized agent for the charter school acknowledging there is no current retirement plan.

2. Two ASRS Agreements showing:
   a. The legal name and current mailing address of the charter school as sponsored pursuant to subsection (A);
   b. What amount of prior service the charter school shall purchase for employees pursuant to R2-8-1006;
   c. The approximate number of employees that will become members upon the effective date of the ASRS Agreement;
   d. The name, title, email address, and telephone number of the designated authorized agent for the charter school;
   e. The designated authorized agent is authorized and directed to conduct all negotiations, conclude all arrangements, and sign all documents necessary to administer the supplemental ASRS retirement plan pursuant to A.R.S. Title 38, Chapter 5, Articles 2 and 2.1; and
   f. The ASRS Agreement is binding and irrevocable;
   g. The effective date of the ASRS Agreement;
h. The charter school agrees to be bound by the provisions of A.R.S. Title 38, Chapter 5, Article 2 and Article 2.1 unless otherwise indicated by law; and

i. The dated signature of the designated authorized agent for the charter school.

3. Two ASRS Resolutions showing:
   a. The legal name of the charter school as sponsored pursuant to subsection (A);
   b. The charter school is adopting a supplemental ASRS retirement plan pursuant to A.R.S. § 38-729;
   c. The charter school agrees to be bound by the provisions of A.R.S. Title 38, Chapter 5, Article 2 and Article 2.1 unless otherwise indicated by law;
   d. The designated authorized agent for the charter school;
   e. The designated authorized agent is authorized and directed to conduct all negotiations, conclude all arrangements, and sign all documents necessary to administer the supplemental ASRS retirement plan pursuant to A.R.S. Title 38, Chapter 5, Articles 2 and 2.1; and
   f. The dated and notarized signature of the designated authorized agent.

4. Two 218 Agreements either electing or declining coverage. If the charter school is electing coverage pursuant to a 218 Agreement, the 218 Agreement must be completed and approved by the Social Security Administration prior to joining the ASRS.
5. Two 218 Resolutions, if the charter school is electing coverage pursuant to subsection (D)(4). The 218 Resolutions must be completed and approved by the Social Security Administration prior to joining the ASRS.

E. Upon receipt of Acceptable Documentation identified in subsection (D), the ASRS may approve the charter school’s request for membership pursuant to A.R.S. § 38-729. If the request to join the ASRS is approved, the state Social Security administrator shall sign the 218 Agreements and the ASRS Director shall sign the ASRS Agreements before the ASRS shall send one of each of the original documents identified in subsection (D) to the charter school.

F. Any charter school that is established under the charter contract of a participating charter school shall participate in the ASRS.

R2-8-1004. Other Political Subdivision and Political Subdivision Entity Employer Membership

A. A political subdivision or political subdivision entity, other than a charter school, may be eligible to participate in the ASRS pursuant to A.R.S. §§ 38-711 and 38-729 if it notifies the ASRS in writing of the political subdivision’s or political subdivision entity’s intent to join the ASRS and provides to the ASRS:

1. A copy of the current legal authority establishing the political subdivision or political subdivision entity;

2. Documentation showing the name and location of the political subdivision or political subdivision entity; and
3. Documentation showing the political subdivision or political subdivision entity has taken the necessary legal action to be eligible to participate pursuant to A.R.S. § 38-729.

B. Upon receipt of the information contained in subsection (C), the ASRS shall determine if the political subdivision or political subdivision entity is eligible to participate in the ASRS. If the political subdivision or political subdivision entity is not eligible to participate in the ASRS, the ASRS shall send the political subdivision or political subdivision entity a notice of ineligibility. If the political subdivision or political subdivision entity is eligible to participate, the ASRS shall provide the political subdivision or political subdivision entity a Potential New Employer Letter.

C. In order to participate as an Employer in the ASRS, an eligible political subdivision or political subdivision entity shall submit to the ASRS the following original documents by the due date listed on the Potential New Employer Letter:

1. The current retirement plan or a statement signed by the designated authorized agent for the political subdivision or political subdivision entity acknowledging there is no current retirement plan.

2. Two ASRS Agreements showing:
   a. The legal name and current mailing address of the political subdivision or political subdivision entity;
   b. What amount of prior service the political subdivision or political subdivision entity shall purchase for employees pursuant to R2-8-1006;
   c. The approximate number of employees that will become members upon the effective date of the ASRS Agreement;
d. The name, title, email address, and telephone number of the designated authorized agent for the political subdivision or political subdivision entity;

e. The designated authorized agent is authorized and directed to conduct all negotiations, conclude all arrangements, and sign all documents necessary to administer the supplemental ASRS retirement plan pursuant to A.R.S. Title 38, Chapter 5, Articles 2 and 2.1; and

f. The ASRS Agreement is binding and irrevocable;

g. The effective date of the ASRS Agreement;

h. The political subdivision or political subdivision entity agrees to be bound by the provisions of A.R.S. Title 38, Chapter 5, Article 2 and Article 2.1 unless otherwise indicated by law; and

i. The dated signature of the designated authorized agent for the political subdivision or political subdivision entity.

3. Two ASRS Resolutions showing:

a. The legal name of the political subdivision or political subdivision entity;

b. The political subdivision or political subdivision entity is adopting a supplemental ASRS retirement plan pursuant to A.R.S. § 38-729;

c. The political subdivision or political subdivision entity agrees to be bound by the provisions of A.R.S. Title 38, Chapter 5, Article 2 and Article 2.1 unless otherwise indicated by law;

d. The designated authorized agent for the political subdivision or political subdivision entity;
e. The designated authorized agent is authorized and directed to conduct all negotiations, conclude all arrangements, and sign all documents necessary to administer the supplemental ASRS retirement plan pursuant to A.R.S. Title 38, Chapter 5, Articles 2 and 2.1; and

f. The dated and notarized signature of the designated authorized agent.

4. Two 218 Agreements either electing or declining coverage. If the political subdivision or political subdivision entity is electing coverage pursuant to a 218 Agreement, the 218 Agreement must be completed and approved by the Social Security Administration prior to joining the ASRS.

5. Two 218 Resolutions, if the political subdivision or political subdivision entity is electing coverage pursuant to subsection (C)(4). The 218 Resolutions must be completed and approved by the Social Security Administration prior to joining the ASRS.

D. Upon receipt of Acceptable Documentation identified in subsection (B), the ASRS may approve the political subdivision’s or political subdivision entity’s request for membership pursuant to A.R.S. § 38-729. If the request to join the ASRS is approved, the state Social Security administrator shall sign the 218 Agreements and the ASRS Director shall sign the ASRS Agreements before the ASRS shall send one of each of the original documents identified in subsection (B) to the political subdivision or political subdivision entity.

R2-8-1005. Employer Reporting

A. An Employer shall submit contribution information and contribution payments pursuant to A.R.S. § 38-735, through the Employer’s secure ASRS account.
B. Within 14 days of receiving the information contained in subsection R2-8-1002(E)(1) through (E)(3), the Employer shall:

1. Verify the information the employee provided;
2. Confirm the employee meets membership requirements pursuant to A.R.S. § 38-711; and
3. Submit the verified information to the ASRS through the Employer's secure ASRS account.

C. For an Employer whose employee elects to participate in an Optional Retirement Plan in lieu of the ASRS pursuant to A.R.S. §15-1628, within 30 days of electing to participate in an Optional Retirement Plan, the Employer shall submit to the ASRS through the Employer’s secure ASRS account the:

1. Employee’s full name;
2. Employee’s Social Security number;
3. Date of the employee’s employment; and
4. Date of the employee’s Optional Retirement Plan election.

D. For an Employer who has submitted information pursuant to subsection (C), within 30 days of that employee terminating employment with that Employer, the Employer shall notify the ASRS through the Employer’s secure ASRS account of the employee’s termination date.

E. Within 14 days before the effective date of joining the ASRS, an Employer shall submit an initial online authorization and designation form in writing to the ASRS with the following information:
1. The Employer’s name;

2. The following information for the person authorized by the Employer to approve the Employer’s Designated Employer Administrator:
   a. The person’s full name;
   b. The person’s title;
   c. The person’s phone number;
   d. The person’s email address;
   e. The person’s dated signature affirming that person has the authority to approve the Employer’s Designated Employer Administrator;

3. The full name of the individual the Employer is designating as the Employer’s Designated Employer Administrator;

4. The title of the individual the Employer is designating as the Employer’s Designated Employer Administrator;

5. The phone number of the individual the Employer is designating as the Employer’s Designated Employer Administrator;

6. The email address of the individual the Employer is designating as the Employer’s Designated Employer Administrator;

7. The dated signature of the individual the Employer is designating as the Employer’s Designated Employer Administrator.

F. An Employer’s Designated Employer Administrator shall establish a new Employer’s Designated Employer Administrator as needed through the Employer’s secure ASRS account.
G. Within 30 days of an Employer no longer having an Employer’s Designated Employer Administrator, the Employer shall submit in writing an initial online authorization and designation form pursuant to subsection (E).

H. Within 30 days of change in the Employer’s address, the Employer shall notify the ASRS of the change through the Employer’s secure ASRS account.

I. Within 10 days of any change in the name or ownership of the Employer, the Employer shall provide written notice of the change to the ASRS through the Employer’s secure ASRS account by providing the Employer’s previous account information and the changes to that information.

J. Within 30 days of any change in the character of an Employer’s organizational structure, the Employer shall send to the ASRS through the Employer’s secure ASRS account, written notice of the previous organizational structure and the effective changes to the Employer’s organizational structure.

K. Within 30 days of Leasing An Employee From A Third Party, an Employer shall submit the following information:

1. The employee’s full name;

2. The number of hours per week the employee works for the Employer;

3. The title of the employee’s position;

4. A copy of the agreement showing the Employer Leasing An Employee From A Third Party; and

5. Whether the employee is retired from the ASRS.
R2-8-1006. Prior Service Purchase Cost for New Employers

A. Pursuant to A.R.S. § 38-729, upon the effective date of joining the ASRS, an Employer may elect to purchase service credit for a period of employment prior to the effective date of joining the ASRS for employees Engaged To Work for the Employer on the effective date of joining the ASRS who are members of the ASRS as of the effective date of joining the ASRS.

B. The ASRS may provide to a potential Employer an estimated cost to purchase service credit pursuant to this section. In order for the ASRS to estimate the cost to purchase service pursuant to this section, a potential Employer shall provide the following information to the ASRS for each employee of the potential Employer who is Engaged To Work for the potential Employer and for whom the potential Employer intends to purchase service credit pursuant to this section:

1. The employee’s full name;
2. The employee’s date of birth;
3. The employee’s Social Security number;
4. The employee’s current salary; and
5. The date the employee began employment with the potential Employer.

C. An Employer who elects to purchase service credit pursuant to this section shall submit the following information for each member for which the Employer is purchasing service credit:

1. Member’s full name;
2. Member’s date of birth;
3. Member’s Social Security number;
4. Member’s date of employment;

5. Documentation showing the Member is Engaged To Work for the Employer as of the effective date of joining the ASRS;

6. Member’s current salary as of the effective date of joining the ASRS; and

7. The number of years the Employer is electing to purchase for the member pursuant to this section or the dollar amount the Employer is electing to pay to purchase service for the member pursuant to this section.

D. The cost to purchase service credit pursuant to this section shall be determined using an actuarial present value calculation.

E. An Employer who elects to purchase service credit pursuant to this section shall submit payment for the full cost of the service purchase to the ASRS within 90 days of the date of notification by the ASRS.

F. If an Employer who elects to purchase service credit pursuant to this section does not submit payment for the full cost of the service purchase within 90 days of the date of notification, the Employer is not eligible to purchase service credit pursuant to this section.
Agenda Item #6
ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS
CITY OF COOLIDGE
APRIL 12, 2018
The audit of the City of Coolidge was completed on April 12, 2018, for the period July 1, 2016 through June 30, 2017.

The audit objectives were to determine whether the City of Coolidge was 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.
- Retirees returning to work.

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 the City of Coolidge:

1. The City of Coolidge did not remit ASRS contributions on all eligible compensation for two employees.

2. The City of Coolidge remitted contributions on ineligible compensation for one employee.

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

BACKGROUND

The City of Coolidge joined the ASRS on July 1, 1969, by executing an Application and Social Security 218 Agreement. City of Coolidge currently has approximately 100 employees contributing to the ASRS.

DESCRIPTION OF AUDIT WORK PERFORMED

The audit work performed during the 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, 2016 through June 30, 2017. The auditor reviewed pertinent documentation and interviewed City of Coolidge 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 and payroll records and, if needed, personnel records to determine compliance with the 20 hour, 20 week eligibility criteria.
• Review of the retired employees’ medical and dental insurance premium benefit.
• Review of the hours and weeks worked and other criteria of retired employees who returned to work to determine compliance with A.R.S. § 38-766.01.
• Review of ACR payments made on behalf of all retirees who have returned to work in any capacity in a position ordinarily filled by an employee to determine compliance with A.R.S. § 38-766.02.
• Other detailed testing as required to meet the audit objectives.

AUDITOR COMMENTS:
City of Coolidge personnel were cooperative, informative and helpful in providing FY 2017 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, AUDIT AND LEGISLATIVE COMMITTEE

ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS

CITY OF COOLIDGE

FINDINGS AND RECOMMENDATIONS

APRIL 12, 2018
FINDING 1:
The City of Coolidge did not remit ASRS contributions on all eligible compensation for two 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.”

Two members did not have contributions withheld and remitted on all eligible compensation. Both members worked secondary employment as voluntary firefighters. While this type of compensation is usually covered by the PSPRS, these members were not eligible for, and therefore not contributing to, the PSPRS.

Retirement and LTD contributions will be due to the ASRS on the eligible compensation as calculated from time and pay records of the 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:

<table>
<thead>
<tr>
<th>Total Unreported Eligible Gross Earnings</th>
<th>$2,964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member Contributions</td>
<td>340</td>
</tr>
<tr>
<td>Employer Contributions</td>
<td>340</td>
</tr>
<tr>
<td>Estimated Interest Due</td>
<td>43</td>
</tr>
<tr>
<td>Total Estimated Due ASRS</td>
<td>$723</td>
</tr>
</tbody>
</table>

Recommendations:
1. The employer should report all eligible compensation to the ASRS.
2. The employer should remit the employer retirement contributions, LTD contributions and interest, as calculated and billed.
3. The employer should distribute to the employees the invoices that will be generated for the employees’ retirement and LTD contributions.

Employer Response:
Effective immediately, the City of Coolidge will begin withholding ASRS contributions from all eligible compensation for each employee who meets the 20/20 eligibility criteria. We will also submit the payment for the calculated bill including interest for the two employees, and distribute a copy to both employees of the invoices generated for their retirement and LTD contributions.
FINDING 2:
The City of Coolidge remitted contributions on ineligible compensation for one employee.

A.R.S. § 38-711(7) defines eligible compensation, and specifically excludes “payment, at the member's option, in lieu of fringe benefits that are normally paid for or provided by the employer.” The member requested payment for accrued annual leave as a hardship payment. Such a payment is not includable as eligible compensation for ASRS purposes.

A.R.S. § 38-738(A) provides for a return 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”.

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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Ineligible Gross Earnings</td>
<td>$808</td>
</tr>
<tr>
<td>Ineligible Member Pension Contributions</td>
<td>92</td>
</tr>
<tr>
<td>Ineligible Member LTD Contributions</td>
<td>1</td>
</tr>
<tr>
<td>Ineligible Employer Pension Contributions</td>
<td>92</td>
</tr>
<tr>
<td>Ineligible Employer LTD Contributions</td>
<td>1</td>
</tr>
<tr>
<td>Total Estimated to be Credited to Employer</td>
<td>$186</td>
</tr>
</tbody>
</table>

Recommendations:
1. The employer should request a credit for the ineligible amounts remitted to the ASRS in error.
2. The employer should not adjust the amount it owes to the ASRS by reducing it by the amount to be credited by the ASRS because the accounts are separate.
3. The employer should return the member’s portion to the member.

Employer Response:
The credit for the ineligible contributions to the ASRS which was remitted for ineligible wages has been corrected, and the member's portion of ASRS has been returned to the employee.

FINDING 3:
The City of Coolidge did not report all demographic information for its members.

A.R.S. § 38-716(1) requires employers to cooperate and collaborate with the ASRS and follow all ASRS procedures to ensure the proper enrollment of members in the system. Members who properly enroll provide the ASRS with enough personal and demographic data to properly identify them and to communicate with them as needed. This also helps to make their accounts more secure. 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 99 members in fiscal year 2017, most of whom had all required demographic information. At the beginning of the audit the City was informed that it had one employee member who had failed to enroll in the ASRS. Another member was 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 within three weeks.

**Recommendations:**

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 HR Department will ensure that all future employees who meet the 20/20 eligibility criteria, will complete their online enrollments in a timely manner. The IT Department has assisted by providing an extra laptop to the HR Department which will allow new employees to enroll during their orientation period.
Gadsden Elementary School District Audit
A REPORT TO THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS AND AUDIT COMMITTEE

ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS

GADSDEN ELEMENTARY SCHOOL DISTRICT

JUNE 1, 2018
The audit of Gadsden Elementary School District was completed on May 21, 2018, for the time period July 1, 2016 through June 30, 2017.

The preliminary audit objectives were to determine whether the Gadsden Elementary School District is in compliance with Arizona Revised Statutes (A.R.S.) 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.
- Retirees’ return to work.

**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 Gadsden Elementary School District:

The District:

1. Did not remit the Alternate Contribution Rate (ACR) payments due for three returned to work retirees in fiscal years 2015 through 2017.

2. The District did not submit, in a timely manner, the add/delete health insurance forms for six retirees when they became Medicare eligible. Consequently, health insurance benefits overpayments occurred at the district between 2006 and 2015.

**BACKGROUND**

Gadsden Elementary School District joined the ASRS July 1, 1955 by executing an Application and Social Security 218 agreement. The District has approximately 500 employees contributing to the ASRS.

**DESCRIPTION OF AUDIT WORK PERFORMED**

The Audit work performed during the 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, 2016 through June 30, 2017. Although the initial audit scope was for one fiscal year, errors were found warranting the expansion of the audit scope to previous fiscal years. The employer was already informed in the engagement letter that the ASRS reserves the right to expand or contract the scope of the audit as circumstances warrant. The auditor reviewed pertinent documentation and interviewed Gadsden Elementary 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:

- Review of the employer payroll records and related ASRS reports.
- Review of employees’ personnel, time 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 in a position ordinarily filled by an employee.
- Other detailed testing as required to meet the audit objectives.

AUDITOR COMMENTS:
Gadsden Elementary 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
OPERATIONS AND AUDIT COMMITTEE

ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS

GADSDEN ELEMENTARY SCHOOL DISTRICT

FINDINGS AND RECOMMENDATIONS

JUNE 1, 2018
FINDING 1:
The District did not remit the Alternate Contribution Rate (ACR) payments due for three returned to work retirees in fiscal years 2015 through 2017.

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 District owes ASRS ACR payments on behalf of three returned to work retirees.

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

| Total Retiree’s Unreported Gross Earnings | $128,973 |
| Employer ACR Payments Due                | 11,987   |
| Estimated Interest Due                    | 950      |
| Total Estimated Due ASRS                  | $12,937  |

Recommendations:
1. The District should contact the ASRS contributions accounting representative to make arrangements for ACR payments due including interest.
2. The District should remit all future ACR payments in a timely manner.

Employer Response:
The employer agreed with the finding.

FINDING 2:
The District did not submit, in a timely manner, the add/delete health insurance forms for six retirees when they became Medicare eligible. Consequently, health insurance benefits overpayments occurred at the district between 2006 and 2015.

A.R.S. § 38-783 states, in part, “the board shall pay from ASRS assets part of the coverage of any health and accident insurance for each retired contingent annuitant or disabled member of ASRS if the member elects to participate in a health and accident insurance program provided or administered by an employer or paid for, in whole or in part, by an employer to an insurer.”

The Health Insurance Benefits overpayments identified in this audit are as follows:

| Total Health Insurance Benefits Overpaid | $11,650 |
| Total Estimated Due ASRS                | $11,650 |

Recommendations:
1. The District should submit the add/delete health insurance forms in a timely manner.
2. The District should report to the ASRS, in a timely manner, any type of change in coverage after the initial authorization form has been completed due to open enrollment elections, especially at positive open enrollments and any changes in plan insurance providers or qualified life events, such as dropping/adding dependents, death of member, or loss of coverage.

**Employer Response:**

The employer agreed with the finding.
A REPORT TO THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS AND AUDIT COMMITTEE

ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS

PIMA PREVENTION PARTNERSHIP

MARCH 22, 2018
Pima Prevention Partnership is a non-profit agency that operates four charter schools. Pima Prevention Partnership (District) is also the collective name used to describe two of those schools, Pima Partnership High School and Pima Performing Arts High School, operating under a single charter. The audit of the District was completed on March 22, 2018, for the period July 1, 2016 through June 30, 2017.

The audit objectives were to determine whether the District was 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.
- Retirees returning to work.

**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 Pima Prevention Partnership:

1. Pima Prevention Partnership remitted contributions on ineligible compensation for 17 employees.
2. Pima Prevention Partnership 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 a fiscal year.
   - Remit ASRS contributions on all eligible compensation for nine employees.
3. Pima Prevention Partnership did not remit the Alternate Contribution Rate (ACR) for eight retirees who had returned to work.
4. Pima Prevention Partnership did not ensure that all retirees returning to work complied with the requirement that they acknowledge in writing the conditions under which they were returning to work.
5. Pima Prevention Partnership did not report all demographic information for its members.

**BACKGROUND**

Pima Prevention Partnership joined the ASRS on July 1, 2002, by executing an Application and Social Security 218 Agreement. The District currently has approximately 50 employees contributing to the ASRS.
DESCRIPTION OF AUDIT WORK PERFORMED

The audit work performed during the 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, 2016 through June 30, 2017. The auditor reviewed pertinent documentation and interviewed Pima Prevention Partnership 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 and payroll records and, if needed, personnel records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees’ medical and dental insurance premium benefit.
- Review of the hours and weeks worked and other criteria of retired employees who returned to work to determine compliance with A.R.S. § 38-766.01.
- Review of ACR payments made on behalf of all retirees who have returned to work in any capacity in a position ordinarily filled by an employee to determine compliance with A.R.S. § 38-766.02.
- Other detailed testing as required to meet the audit objectives.

AUDITOR COMMENTS:

Pima Prevention Partnership personnel were cooperative, informative and helpful in providing FY 2017 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

PIMA PREVENTION PARTNERSHIP

FINDINGS AND RECOMMENDATIONS

MARCH 22, 2018
**FINDING 1:**

Pima Prevention Partnership remitted contributions on ineligible 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. Except for certain narrow exceptions, an employee must be engaged to work 20/20 with every reporting employer.

Pima Prevention Partnership is a non-profit group that operates four charter schools, two of which operate under one charter and are also called Pima Prevention Partnership. The affiliated schools have three separate ASRS agreements and have to be treated as separate and distinct for ASRS participation. The schools and several affiliated non-profit entities all have a combined payroll and many employees work at more than one of the separate entities. The combined payroll presents some difficulties to ensure that the employees are all properly identified as to which entity is the employer for all hours worked and whether some or all of their compensation should be excluded because it was earned at a non-ASRS employer or earned at an ASRS employer where the employee was not engaged to work 20/20. Another concern is that the compensation may be paid through one employer even though it was earned at a different one. The statute determines eligibility by where the employee works, so that would be the determining factor rather than which fund an employee may have received payment from.

Most of the overpaid amounts resulted when members split their time among multiple employers, and were engaged to work 20/20 at only one ASRS employer. The compensation earned at another ASRS employer where they were not engaged to work 20/20, or at a non-ASRS employer was not eligible to be reported through this employer. Those members will have some of their contributions credited back to the District, but will not lose service credit. Other members split their time among multiple employers and were not engaged to work 20/20 by any ASRS employer in one or more fiscal years. Those members will have their contributions credited back to the employer and will lose service credit. Other members were discovered to have ineligible termination payments reported as eligible compensation. The ineligible contributions will be credited back to the employer.

A.R.S. § 38-738(A) provides for a return 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.” The employer is then responsible to return the employees’ contributions directly to them.

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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Ineligible Gross Earnings</td>
<td>$439,579</td>
</tr>
<tr>
<td>Ineligible Member Pension Contributions</td>
<td>49,361</td>
</tr>
<tr>
<td>Ineligible Member LTD Contributions</td>
<td>713</td>
</tr>
<tr>
<td>Ineligible Employer Pension Contributions</td>
<td>49,361</td>
</tr>
<tr>
<td>Ineligible Employer LTD Contributions</td>
<td>713</td>
</tr>
<tr>
<td>Total Estimated to be Credited to Employer</td>
<td>$100,148</td>
</tr>
</tbody>
</table>
Recommendations:
1. The employer should notify each eligible employee/retiree when there is a change in eligibility status. 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) by an employer. 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.

2. The employer should request a credit of the overpaid amounts, and then return the employees' portion to them.

3. While the employer should generally not change employees from eligible to ineligible until the end of the fiscal year, employees' eligibility to continue participating in the ASRS should be reassessed at the beginning of each new fiscal year.

4. The employer should not adjust the amount it owes to the ASRS by reducing it by the amount owed by the ASRS because the accounts are separate.

Employer Response:
The Pima Prevention has developed a spreadsheet that includes all eligible employees and their allocation to the corresponding ASRS employer. This spreadsheet is in the shared finance and HR folder. The payroll specialist utilizes the form at each payroll to allocate the appropriate percentage to the assigned ASRS employer. The spreadsheet will correct the finding regarding submitting contributions for ineligible employees.

FINDING 2:
Pima Prevention Partnership 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 a fiscal year.
- Remit ASRS contributions on all eligible compensation for nine 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 Pima Prevention Partnership (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. This employee should have been participating in the ASRS when they were engaged to work these hours, and no later than the period when they actually reached the twentieth week of working 20 or more hours.

Nine employees did not have contributions withheld and remitted on all eligible compensation. In some cases, the employee worked secondary employment, such as tutoring, but ASRS contributions were only withheld on the primary teaching position. Several members received stipends that were excluded from ASRS reporting. In two cases, contributions were
discontinued because the employee terminated and the member’s final pay for regular wages was not reported. One of these terminated members returned as a tutor later in the year, and those amounts were also not reported. 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 District.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Unreported Eligible Gross Earnings</td>
<td>$37,757</td>
</tr>
<tr>
<td>Member Contributions</td>
<td>4,335</td>
</tr>
<tr>
<td>Employer Contributions</td>
<td>4,335</td>
</tr>
<tr>
<td>Estimated Interest Due</td>
<td>503</td>
</tr>
<tr>
<td>Total Estimated Due ASRS</td>
<td>$9,173</td>
</tr>
</tbody>
</table>

**Recommendations:**

1. The employer should notify each eligible employee(s) when there is a change in eligibility status. ASRS contributions should be withheld from an employee’s earnings when the 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.

3. The employer generally should not change employees from eligible to ineligible until the end of the fiscal year. An eligible employee usually 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:**

Human Resource and payroll personnel attended the ASRS training on March 28, 2018, and will continue to attend annually. Eligible compensation was reviewed.
**FINDING 3:**
Pima Prevention Partnership did not remit the Alternate Contribution Rate (ACR) for eight retirees 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 District reported compensation and paid ACR for five retirees. However, two of those retirees did not have all eligible compensation reported. Another six retirees were found who had earnings in fiscal year 2017 and nothing was reported for the ACR. The employer should have paid $11,266 for 11 retirees, but instead only paid $8,134 for five retirees. The payment compliance rate for all ACR owed was about 72%.

Two other retirees had ACR paid through this employer even though they were working for another employer. The total overpayment for non-employees was $681.

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 credit should also be taken online. The amounts should not be combined because they are separate accounts.

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

| Total Retirees’ Unreported Gross Earnings | $33,075 |
| Employer ACR Contributions               | 3,132   |
| Estimated Interest Due                    | 251     |
| Total Estimated Due ASRS                  | $ 3,383 |

**Recommendations:**

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

**Employer Response:**
The Pima Prevention has added a question in the application process and the new hire orientation checklist, whether an employee is an ASRS retiree. In addition, the Pima Prevention has communicated to the substitute teaching leasing agencies to add a column on the sign in sheet, indicating if the substitute teacher is an ASRS Retiree. In addition, the contact of each leasing agency sends the Pima Prevention an email when a retiree is placed. The payable's department, payroll and the front office personnel, at each school has also been informed.
FINDING 4:
Pima Prevention Partnership did not ensure that all retirees returning to work complied with the requirement that they acknowledge in writing the conditions under which they were returning to work.

A.R.S. § 38-766.01 provides the guidelines for retirees who wish to return to work without suspension of benefits. 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.”

The ASRS requires that retirees and employers provide a written 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.” The ASRS requires that retirees returning to direct employment in a position ordinarily filled by an employee of the employer complete an online return to work form that states the retiree’s intended weekly hours and number of weeks of expected employment. The employer is required to review this form and verify that the employer agrees with the retiree’s expected hours and weeks of work. This form may not be accessible when the retiree begins employment if the retiree’s retirement has not been finalized, so a retiree returning to employment that does not meet 20/20 eligibility may have to monitor his or her account until the form becomes available.

At the beginning of field work, the District had written documentation for some, but not all, of its retirees who had returned to direct employment. Six retirees were working after retirement in direct employment. Three of these did not have proper written documentation.

Recommendation:
The District should ensure that all retirees working in direct employment complete the online return to work form within 30 days of returning to direct employment. Retirees returning to direct employment that is less than 20/20 may not have access to this form before their retirement is finalized. Retirees who return to employment less than 20/20 before their retirements are finalized should complete the form within 30 days of having access to the form.

Employer Response:
During the new hire orientation, the new hire will be asked to submit a RTW form if applicable, based on the application and the new hire orientation checklist.

FINDING 5:
Pima Prevention Partnership did not report all demographic information for its members.

A.R.S. § 38-716(1) requires employers to cooperate and collaborate with the ASRS and follow all ASRS procedures to ensure the proper enrollment of members in the system. Members who properly enroll provide the ASRS with enough personal and demographic data to properly identify them and to communicate with them as needed. This also helps to make their accounts more secure. 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 District reported contributions for 58 members in fiscal year 2017, most of whom had all required demographic information. At the beginning of the audit the District was informed that it had two employee members who had failed to enroll in ASRS and were missing the following items of demographic information: date of birth, marital code, gender and address. The employer provided the missing information within one business day.

**Recommendation:**
The District should 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:**
In addition, the new hire on their first day in the HR office, while performing the new hire orientation will be provided access to a computer in which they will enroll into the corresponding ASRS employer. And will be informed of the importance of filling in all demographic information.
Pima Prevention Partnership/Pima Partnership Academy Audit
A REPORT TO THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS AND AUDIT COMMITTEE

ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS

PIMA PARTNERSHIP ACADEMY
PIMA PREVENTION PARTNERSHIP

MARCH 22, 2018
Pima Prevention Partnership is a non-profit agency that operates four charter schools, one of which is Pima Partnership Academy. The audit of the Pima Partnership Academy was completed on March 22, 2018, for the period July 1, 2016 through June 30, 2017.

The audit objectives were to determine whether the Pima Partnership Academy was 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.
- Retirees returning to work.

**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 Pima Partnership Academy:

1. **Pima Partnership Academy remitted contributions on ineligible compensation for one employee.**

2. **Pima Partnership Academy did not remit ASRS contributions on all eligible compensation for two employees.**

3. **Pima Partnership Academy did not remit the Alternate Contribution Rate (ACR) for two retirees who had returned to work.**

4. **Pima Partnership Academy did not ensure that all retirees returning to work complied with the requirement that they acknowledge in writing the conditions under which they were returning to work.**

5. **Pima Partnership Academy did not report all demographic information for its members.**

**BACKGROUND**

Pima Partnership Academy (Academy) joined the ASRS on November 1, 2012, by executing an Application and Social Security 218 Agreement. Pima Partnership Academy currently has approximately ten employees contributing to the ASRS.

**DESCRIPTION OF AUDIT WORK PERFORMED**

The audit work performed during the 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, 2016 through June 30, 2017. The auditor reviewed pertinent documentation and interviewed Academy 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 and payroll records and, if needed, personnel records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees’ medical and dental insurance premium benefit.
- Review of the hours and weeks worked and other criteria of retired employees who returned to work to determine compliance with A.R.S. § 38-766.01.
- Review of ACR payments made on behalf of all retirees who have returned to work in any capacity in a position ordinarily filled by an employee to determine compliance with A.R.S. § 38-766.02.
- Other detailed testing as required to meet the audit objectives.

AUDITOR COMMENTS:

Academy personnel were cooperative, informative and helpful in providing FY 2017 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

PIMA PARTNERSHIP ACADEMY
PIMA PREVENTION PARTNERSHIP

FINDINGS AND RECOMMENDATIONS

MARCH 22, 2018
FINDING 1:
Pima Partnership Academy remitted contributions on ineligible compensation for one employee.

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. Except for certain narrow exceptions, an employee must be engaged to work 20/20 with every reporting employer.

Pima Prevention Partnership is a non-profit group that operates four charter schools, one of which is Pima Partnership Academy (Academy). The affiliated schools have three separate ASRS agreements and have to be treated as separate and distinct for ASRS participation. The schools and several affiliated non-profit entities all have a combined payroll and many employees work at more than one of the separate entities. The combined payroll presents some difficulties to ensure that the employees are all properly identified as to which entity is the employer for all hours worked and whether some or all of their compensation should be excluded because it was earned at a non-ASRS employer or earned at an ASRS employer where the employee was not engaged to work 20/20. Another concern is that the compensation may be paid through one employer even though it was earned at a different one. The statute determines eligibility by where the employee works, so that would be the determining factor rather than which fund an employee may have received payment from. The overpaid amounts resulted when a member split time among multiple employers but compensation was not properly allocated.

A.R.S. § 38-738(A) provides for a return 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, the ASRS shall return those contributions to the employer if the employer requests return of the contributions”. The employer is then responsible to return the employees’ contributions directly to them.

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 Ineligible Gross Earnings | $ 27,589 |
| Ineligible Member Pension Contributions | 3,128 |
| Ineligible Member LTD Contributions | 39 |
| Ineligible Employer Pension Contributions | 3,128 |
| Ineligible Employer LTD Contributions | 39 |
| Total Estimated to be Credited to Employer | $ 6,334 |

Recommendations:
1. The employer should notify each eligible employee/retiree when there is a change in eligibility status. 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) by an employer. 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.
2. The employer should request a credit of the overpaid amounts, and then return the employee’s portion to them.

3. While the employer should generally not change employees from eligible to ineligible until the end of the fiscal year, employees’ eligibility to continue participating in the ASRS should be reassessed at the beginning of each new fiscal year.

4. The employer should not adjust the amount it owes to the ASRS by reducing it by the amount owed by the ASRS because the accounts are separate.

Employer Response:
The Pima Prevention has developed a spreadsheet that includes all eligible employees and their allocation to the corresponding ASRS employer. This spreadsheet is in the shared finance and HR folder. The payroll specialist utilizes the form at each payroll to allocate the appropriate percentage to the assigned ASRS employer. The spreadsheet will correct the finding regarding submitting contributions for ineligible employees.

FINDING 2:
Pima Partnership Academy did not remit ASRS contributions on all eligible compensation for two 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.”

Two members of the Academy did not have contributions withheld and remitted on all eligible compensation. In both cases, the compensation was reported for a different, but related, ASRS employer. One of the members has already refunded her account, but the other member’s account will have to be corrected. The compensation will have to be credited to the incorrect employer and billed to the correct employer.

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Unreported Eligible Gross Earnings</td>
<td>$390</td>
</tr>
<tr>
<td>Member Contributions</td>
<td>45</td>
</tr>
<tr>
<td>Employer Contributions</td>
<td>45</td>
</tr>
<tr>
<td>Estimated Interest Due</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total Estimated Due ASRS</strong></td>
<td><strong>$95</strong></td>
</tr>
</tbody>
</table>
Recommendations:
1. The employer should notify each eligible employee(s) 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.

3. The employer generally should not change employees from eligible to ineligible until the end of the fiscal year. An eligible employee usually 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:
Human Resource and payroll personnel attended an ASRS training on March 28, 2018, and will continue to attend annually. Eligible compensation was reviewed.

FINDING 3:
Pima Partnership Academy did not remit the Alternate Contribution Rate (ACR) for two retirees 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 Academy reported no compensation and paid no ACR for any retirees.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Retirees’ Unreported Gross Earnings</td>
<td>$13,221</td>
</tr>
<tr>
<td>Employer ACR Contributions</td>
<td>1,252</td>
</tr>
<tr>
<td>Estimated Interest Due</td>
<td>100</td>
</tr>
<tr>
<td>Total Estimated Due ASRS</td>
<td>$1,352</td>
</tr>
</tbody>
</table>
Recommendations:
1. The Academy should contact the ASRS on the appropriate steps to take to ensure that the amounts are reported in the correct periods.

2. The Academy should pay all current and future ACR amounts owed in a timely manner.

Employer Response:
The Pima Prevention has added a question in the application process and the new hire orientation checklist, whether an employee is an ASRS retiree. In addition, the Pima Prevention has communicated to the substitute teaching leasing agencies to add a column on the sign in sheet, indicating if the substitute teacher is an ASRS Retiree. In addition, the contact of each leasing agency sends the Pima Prevention an email when a retiree is placed. The payable’s department, payroll and the front office personnel, at each school has also been informed.

FINDING 4:
Pima Partnership Academy did not ensure that all retirees returning to work complied with the requirement that they acknowledge in writing the conditions under which they were returning to work.

A.R.S. § 38-766.01 provides the guidelines for retirees who wish to return to work without suspension of benefits. 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 retirees and employers provide a written 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.” The ASRS requires that retirees returning to direct employment in a position ordinarily filled by an employee of the employer complete an online return to work form that states the retiree’s intended weekly hours and number of weeks of expected employment. The employer is required to review this form and verify that the employer agrees with the retiree's expected hours and weeks of work. This form may not be accessible when the retiree begins employment if the retiree’s retirement has not been finalized, so a retiree returning to employment that does not meet 20/20 eligibility may have to monitor his or her account until the form becomes available.

At the beginning of field work, the Academy had no written documentation for either of its two retirees who had returned to work.

Recommendations:
The Academy should ensure that all retirees working in direct employment complete the online return to work form within 30 days of returning to direct employment. Retirees returning to direct employment that is less than 20/20 but before their retirement is finalized may not have access to the online form within 30 days of returning to direct employment. Retirees who return to employment less than 20/20 before their retirements are finalized should complete the form within 30 days of having access to the form.
Employer Response:
During the new hire orientation, the new hire will be asked to submit a RTW form if applicable, based on the application and the new hire orientation checklist.

FINDING 5:
Pima Partnership Academy did not report all demographic information for its members.

A.R.S. § 38-716(1) requires employers to cooperate and collaborate with the ASRS and follow all ASRS procedures to ensure the proper enrollment of members in the system. Members who properly enroll provide the ASRS with enough personal and demographic data to properly identify them and to communicate with them as needed. This also helps to make their accounts more secure. 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 Academy reported contributions for ten members in fiscal year 2017, most of whom had all required demographic information. During the audit the Academy was informed that it had four employee members who had failed to enroll in ASRS. The Academy supplied the missing information within one business day.

Recommendations:
The Academy 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:
In addition the new hire on their first day in the HR office, while performing the new hire orientation will be provided access to a computer in which they will enroll into the corresponding ASRS employer. And will be informed of the importance of filling in all demographic information.
Pima Prevention Partnership/Arizona Collegiate High School Audit
A REPORT TO THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS AND AUDIT COMMITTEE

ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS

ARIZONA COLLEGIATE HIGH SCHOOL
PIMA PREVENTION PARTNERSHIP

MARCH 22, 2018
Pima Prevention Partnership is a non-profit agency that operates four charter schools, one of which is Arizona Collegiate High School. The audit of the Arizona Collegiate High School (School) was completed on March 22, 2018, for the period July 1, 2016 through June 30, 2017.

The audit objectives were to determine whether the Arizona Collegiate High School was 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.
- Retirees returning to work.

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 Arizona Collegiate High School:

1. Arizona Collegiate High School remitted contributions on ineligible compensation for two employees.
2. Arizona Collegiate High School did not remit ASRS contributions on all eligible compensation for ten employees.
3. Arizona Collegiate High School did not remit the Alternate Contribution Rate (ACR) for two retirees who had returned to work.
4. Arizona Collegiate High School did not ensure that all retirees returning to work complied with the requirement that they acknowledge in writing the conditions under which they were returning to work.

BACKGROUND

Arizona Collegiate High School joined the ASRS on November 1, 2012, by executing an Application and Social Security 218 Agreement. The School currently has approximately 20 employees contributing to the ASRS.

DESCRIPTION OF AUDIT WORK PERFORMED

The audit work performed during the 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, 2016 through June 30, 2017. The auditor reviewed pertinent documentation and interviewed Arizona Collegiate High School 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 and payroll records and, if needed, personnel records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees’ medical and dental insurance premium benefit.
- Review of the hours and weeks worked and other criteria of retired employees who returned to work to determine compliance with A.R.S. § 38-766.01.
- Review of ACR payments made on behalf of all retirees who have returned to work in any capacity in a position ordinarily filled by an employee to determine compliance with A.R.S. § 38-766.02.
- Other detailed testing as required to meet the audit objectives.

AUDITOR COMMENTS:
Arizona Collegiate High School personnel were cooperative, informative and helpful in providing FY 2017 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

ARIZONA COLLEGIATE HIGH SCHOOL
PIMA PREVENTION PARTNERSHIP

FINDINGS AND RECOMMENDATIONS

MARCH 22, 2018
FINDING 1:
Arizona Collegiate High School remitted contributions on ineligible compensation for two 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. One employee identified in the audit did not meet the 20/20 eligibility criteria and therefore was not eligible to participate in ASRS. The other employee had ineligible compensation reported as well as eligible. The employee with ineligible compensation has already elected to refund that account, so only the other account will be able to be adjusted.

Pima Prevention Partnership is a non-profit group that operates four charter schools, one of which is Arizona Collegiate High School. The affiliated schools have three separate ASRS agreements and have to be treated as separate and distinct for ASRS participation. The schools and several affiliated non-profit entities all have a combined payroll and many employees work at more than one of the separate entities. The combined payroll presents some difficulties to ensure that the employees are all properly identified as to which entity is the employer for all hours worked and whether some or all of their compensation should be excluded because it was earned at a non-ASRS employer or earned at an ASRS employer where the employee was not engaged to work 20/20. Another concern is that the compensation may be paid through one employer even though it was earned at a different one. The statute determines eligibility by where the employee works, so that would be the determining factor rather than which fund an employee may have received payment from. Most of the overpaid amounts resulted when a member split time among multiple employers and was not engaged to work 20/20 by the School in the fiscal year. Another member had had ineligible termination payments included in ASRS reporting. Those members will have their contributions credited back to the employer and the employee under 20/20 will lose some service credit.

A.R.S. § 38-738(A) provides for a return 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”. The employer is then responsible to return the employees’ contributions directly to them.

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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Ineligible Gross Earnings</td>
<td>$49,646</td>
</tr>
<tr>
<td>Ineligible Member Pension Contributions</td>
<td>5,630</td>
</tr>
<tr>
<td>Ineligible Member LTD Contributions</td>
<td>70</td>
</tr>
<tr>
<td>Ineligible Employer Pension Contributions</td>
<td>5,630</td>
</tr>
<tr>
<td>Ineligible Employer LTD Contributions</td>
<td>70</td>
</tr>
<tr>
<td>Total Estimated to be Credited to Employer</td>
<td>$11,400</td>
</tr>
</tbody>
</table>
Recommendations:

1. The employer should notify each eligible employee/retiree when there is a change in eligibility status. 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) by an employer. 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.

2. The employer should request a credit of the overpaid amounts, and then return the employees’ portion to them.

3. While the employer should generally not change eligible employees to ineligible until the end of the fiscal year, employees’ eligibility to continue participating in the ASRS should be reassessed at the beginning of each new fiscal year.

4. The employer should not adjust the amount it owes to the ASRS by reducing it by the amount owed by the ASRS because the accounts are separate.

Employer Response:

The Pima Prevention has developed a spreadsheet that includes all eligible employees and their allocation to the corresponding ASRS employer. This spreadsheet is in the shared finance and HR folder. The payroll specialist utilizes the form at each payroll to allocate the appropriate percentage to the assigned ASRS employer. The spreadsheet will correct the finding regarding submitting contributions for ineligible employees.

FINDING 2:

Arizona Collegiate High School did not remit ASRS contributions on all eligible compensation for ten 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.”

Ten employees did not have contributions withheld and remitted on all eligible compensation. Reporting did not always start when the member was engaged to work 20/20. In some cases, tutoring income or stipends were not reported. Some members did not have their final pay of regular wages reported. Some members fell under more than one category. Two of these members have already elected to refund their accounts, so only the remaining eight members will be billed for unpaid amounts.

Retirement and LTD contributions will be due to the ASRS on the eligible compensation as calculated from time and pay records of the under-contributing employees. The ASRS Financial Services Division will generate invoices for the members for their portion after payment is made by the School.
Interest continues to accrue until the ACR is paid, so the exact accrued interest will be determined with the payment when it is made. The employer should contact the ASRS on how to properly make this payment.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Unreported Eligible Gross Earnings</td>
<td>$17,140</td>
</tr>
<tr>
<td>Member Contributions</td>
<td>1,968</td>
</tr>
<tr>
<td>Employer Contributions</td>
<td>1,968</td>
</tr>
<tr>
<td>Estimated Interest Due</td>
<td>229</td>
</tr>
<tr>
<td>Total Estimated Due ASRS</td>
<td>$4,165</td>
</tr>
</tbody>
</table>

Recommendations:

1. The employer should notify each eligible employee(s) when there is a change in eligibility status. ASRS contributions should be withheld from an employee’s earnings when the 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 generally should not change employees from eligible to ineligible until the end of the fiscal year. An eligible employee usually does not become ineligible during a fiscal year.

3. The employer should remit the employer retirement contributions, LTD contributions and interest, as calculated and billed.

4. The employer should distribute to the employees the invoices that will be generated for the employees’ retirement and LTD contributions.

Employer Response:

Human Resource and payroll personnel attended an ASRS training on March 28, 2018, and will continue to attend annually. Eligible compensation was reviewed.

FINDING 3:

Arizona Collegiate High School did not remit the Alternate Contribution Rate (ACR) for two retirees 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 School did not report compensation or pay ACR for any retirees.
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 | $ 7,390 |
| Employer ACR Contributions               | 700     |
| Estimated Interest Due                   | 56      |
| Total Estimated Due ASRS                 | $ 756   |

**Recommendations:**

1. The School should contact the ASRS on the appropriate steps to take to ensure that the amounts are reported in the correct periods.
2. The School should pay all current and future ACR amounts owed in a timely manner.

**Employer Response:**
The Pima Prevention has added a question in the application process and the new hire orientation checklist, whether an employee is an ASRS retiree. In addition, the Pima Prevention has communicated to the substitute teaching leasing agencies to add a column on the sign in sheet, indicating if the substitute teacher is an ASRS Retiree. In addition, the contact of each leasing agency sends the Pima Prevention an email when a retiree is placed. The payable's department, payroll and the front office personnel, at each school has also been informed.

**FINDING 4:**
Arizona Collegiate High School did not ensure that all retirees returning to work complied with the requirement that they acknowledge in writing the conditions under which they were returning to work.

A.R.S. § 38-766.01 provides the guidelines for retirees who wish to return to work without suspension of benefits. 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 retirees and employers provide a written acknowledgement to 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.” The ASRS requires that retirees returning to direct employment in a position ordinarily filled by an employee of the employer complete an online return to work form that states the retiree’s intended weekly hours and number of weeks of expected employment. The employer is required to review this form and verify that the employer agrees with the retiree’s expected hours and weeks of work. This form may not be accessible when the retiree begins employment if the retiree’s retirement has not been finalized, so a retiree returning to employment that does not meet 20/20 eligibility may have to monitor his or her account until the form becomes available.
At the beginning of field work, the School did not know it had any retirees working after retirement, and therefore had no written documentation for its single retiree who had returned to direct employment.

**Recommendation:**

The School should ensure that all retirees working in direct employment complete the online return to work form within 30 days of returning to direct employment. Retirees returning to direct employment that is less than 20/20 but before their retirement is finalized may not have access to the online form within 30 days of returning to direct employment. Retirees who return to employment less than 20/20 before their retirements are finalized should complete the form within 30 days of having access to the form.

**Employer Response:**

During the new hire orientation, the new hire will be asked to submit a RTW form if applicable, based on the application and the new hire orientation checklist.
Agenda Item #7
Notice of Rulemaking
Interest
MEMORANDUM

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

FROM: Mr. Harold Mackey, Chief Internal Auditor

DATE: July 19, 2018

RE: Agenda Item #7: Presentation, Discussion and Appropriate Action Regarding the ASRS Fiscal Year (FY) 2019 Audit Plan

The Internal Audit Division (IAD) has prepared an audit plan for the Agency that proposes auditable activities for the fiscal year beginning July 1, 2018 through June 30, 2019.

The plan is based on an ongoing risk assessments conducted by the ASRS executive and senior managers, under the oversight of the OALC and in collaboration with IAD. The risk assessment audits begin on page 8.

In addition to the risk assessment audits:
- We will be auditing areas of the agency that are not included in the current ASRS Risk Assessment
- We will be providing consultative/advisor services and analysis of new agency processes and functions
- We will be enhancing our support services with external auditors and assessors

The total hours available to perform audits or audit related work will be 4,069. A breakdown of the hours of auditing and audit related work begins on page 18 of the plan.

The OALC reserves the right to re-evaluate the plan and recommend changes at any time during the fiscal year.

The IAD will continue to report to the OALC quarterly on the status of the audit plan. The quarterly report will contain the budgeted and actual hours for each audit assigned.

An explanation of the objectives, scope, estimated hours and reason for each audit begins on page 19 of the audit plan.

The plan is based on an audit staff of one Chief Auditor and two Audit Officers (Internal auditors).
Agenda

• Overview & Update
• Risk Assessment And Resource Allocation
• Budgeted Hours & Allocation
• Appendices – Preliminary Audit and Services Descriptions
Arizona State Retirement System
Internal Audit Division

Internal Audit Work Plan
Overview
**Information Gathering and Scoping**

- Gain an understanding of industry trends and current environmental risks through training, publications, and industry personnel.
- Obtain technical guidance from GASB and AICPA to identify changes to audit and accounting requirements.
- Gain an understanding of ASRS’ strategic objectives and key initiatives by reading the strategic plan.
- Update audit universe based upon changes in organizational structure, information from professional organizations, and input from staff.

**Risk Analysis**

- Interview trustees, members of the ASRS executive team, and staff to obtain various points of view on risk.
- Review previous surveys of executives and selected leadership team members on their assessments of risk in the categories of fraud, compliance, materiality, complexity, suspected concerns, and emerging risks.
- Obtain latest ERM report to identify additional areas of risk.

**Development and Vetting of Proposed Audit Plan**

- Develop a proposed Audit Plan based on interviews, risk assessments, resource, resource availability, budget, and division coverage.
- Meet with ERM Committee to discuss proposed audit plan.
- Consider requirements from the ASRS Internal Audit Charter to ensure alignment with proposed audit activities and standards.

**Next Steps**

- Review and discuss the proposed Audit Plan with the Operations, Audit and Legislative Committee (OALC).
- Obtain OALC recommendation and Board approval of Audit Plan.
• The Audit Plan is designed to provide coverage of key risks and planning and administrative activities, given the existing staff and approved budget
• Interim changes to the Audit Plan will occur from time to time due to changes in business risks, timing of ASRS’ initiatives, and staff availability
• Audit Plan changes will be reported to executive management and to the OALC chair
• Audit Plan changes will be reported to the OALC at the next quarterly Audit Committee meeting based on discussions with the ASRS director and the OALC chair
• Proposed amendments to the approved Audit Plan will be submitted to the OALC for approval
• The OALC will determine if the proposed amendments should be forwarded to the Board for approval based on the significance of the amendments
• **Audit**
  - Audit Focus: Assess evidence available in order to provide assurance on an audit objective
  - Deliverable: Audit report for public distribution unless protected

• **Agreed-Upon Process / Procedures**
  - Focus: Determine specific steps to test with management’s agreement and report on results; used for data to those with understanding of procedures performed
  - Deliverables: Agreed-Upon Process / Procedures report for public distribution (use is limited)

• **Formal Consulting**
  - Focus: Respond to requests for formal study or assessment with recommendations; no assurance provided
  - Deliverable: Consulting report or memo for limited distribution; significant material weaknesses identified would be reported to executive management and the OALC as required by professional auditing standards

• **Informal Consulting (Advisory)**
  - Focus: Participate in activities in a non-voting capacity, e.g., provide training and input on policies and procedures
  - Deliverable: Verbal discussion or a brief memo to management

**Suggested levels of review activities**
• Fraud Related Activities
  • Fraud Hotline - monitor, evaluate, report
  • Agency fraud - investigate, evaluate, report

• Employer Review Transitioning
  • Monthly monitor Employer Review progress
  • Provide consultative guidance
  • Provide periodic status to the OALC

• External Audit Follow-up & Closure
  • Report recommendation closure
  • Provide notification to External Auditors on recommendations
  • Provide ASRS management results of recommendation fulfillment
Arizona State Retirement System
Internal Audit Division
Risk Assessment
&
Resource Allocation
The ASRS Risk Assessment is:

- A systematic process for assessing and integrating professional judgments about probable adverse conditions or events
- Conducted in accordance with principles espoused in the 2004 Committee of Sponsored Organizations report (COSO) of the Treadway Commission
- Developed in collaboration with ASRS executive and senior managers, OALC members, and IA staff
- Used to determine what services or service areas should be audited and to facilitate the development of the audit plan
For risk assessment and audit planning purposes, the IAD divided the ASRS operations into the following potential auditable areas:

- Member Services Division (MSD)
- Technology Services Division (TSD)
- Investment Management Division (IMD)
- Director's Office (including Legal Services) (DIR)
- Administrative Services Division (ASD)
- Financial Services Division (FSD)
  (including Payroll, Accounts Receivable, Accounts Payable, Retirement Payroll, Financial Reporting, Investment Accounting, Contribution Accounting)
Risks were developed using material developed by the Association of Public Pension Plan Fund Auditors (APPFA) in a document titled “Operational Risks of Defined Benefit and Related Plans” as updated in 2013. This document was redesigned to meet the current and particular needs of the ASRS.

Under the oversight of the OALC, the ASRS executive and senior managers identify and rate risk factors as follows:
- Impact: major, moderate, minor
- Tolerance: high, medium, low
- Control strength: strong, some vulnerability, weak
- Likelihood: likely, some likelihood, not likely

Following each risk identified by the Enterprise Risk Management Committee, a control strategy of options are prepared on how the agency will respond to the risks and the actions the agency will take to mitigate them.

In addition to mapping the agency’s strategy regarding risks, the risk assessment provides the IAD with a logical method of identifying activities for the Audit Plan. The following areas of risk which require IAD involvement were identified by the agency’s current Risk Assessment:
<table>
<thead>
<tr>
<th>Potential Risk</th>
<th>Risk</th>
<th>Mitigation Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refunds Processing</td>
<td>Refunds are not accurately calculated post system automation.</td>
<td>Perform a monthly review for refund accuracy; report every six months to the Board.</td>
</tr>
<tr>
<td>Service Purchase Processing Invoices</td>
<td>Service purchase invoices are not calculated accurately and credited service is not properly allocated.</td>
<td>Perform a quality review for invoice accuracy; report every six months to the Board.</td>
</tr>
<tr>
<td>Government Accounting Standards Board (GASB) #68 Employer Demographics</td>
<td>Disagreement exists between the employer and the ASRS Member information regarding age of member, years of service, eligibility and eligible compensation. This is now required information on all financial statements produced by pension plans.</td>
<td>Perform sample testing to ensure accuracy of member information.</td>
</tr>
<tr>
<td>Agency Incoming Correspondence From Members</td>
<td>Incoming correspondence from members is improperly handled, tracked and may be directed to the inappropriate parties at the ASRS.</td>
<td>Test internal controls surrounding incoming member correspondence to ensure proper handling.</td>
</tr>
<tr>
<td>Fraud Hotline</td>
<td>The agency does not have an adequate method available to individuals to report potential fraud related events in a timely manner.</td>
<td>Maintain Fraud Hotline and report process to investigate potential fraudulent activities.</td>
</tr>
<tr>
<td>Continuity of Operations Plan (COOP) Testing</td>
<td>The agency is unable to recover from a significant disruption/event to its operations.</td>
<td>Through observation, annually determine if the agency is able to recover core business.</td>
</tr>
<tr>
<td>Management / Investment Fees</td>
<td>The ASRS is improperly charged for services contracted for by outside vendors per the terms of their agreed contract.</td>
<td>Test payments against vendors’ agreements for service and test the adequacy of controls surrounding the payment process.</td>
</tr>
<tr>
<td>Health Insurance Supplements</td>
<td>The ASRS is paying health insurance subsidies for members/retirees who are not eligible.</td>
<td>Perform an analysis of years of service and Medicare eligibility for all members and dependents.</td>
</tr>
<tr>
<td>Pension Disbursements Project</td>
<td>The new pension disbursement system is inaccurately calculating payments and the process has unrealized control deficiencies.</td>
<td>Perform monthly sample testing for assurance of calculation accuracy.</td>
</tr>
<tr>
<td>Vendor Efficacy</td>
<td>The ASRS is paying for services it is no longer using or incompatible contract language exists that impact the agency’s ability to efficiently manage cost inflation.</td>
<td>Preform assessment of vendors contracts to identify inactive contracts or contracts that require amending to mitigate cost inflation to the agency.</td>
</tr>
<tr>
<td>Cash Controls</td>
<td>Cash controls are operating ineffectively for certain high risk processes: Annuitant, LTD and Withdraw Payments; Receipt and handling of Live Checks; Server Security, and; Application Controls and Application/User Access.</td>
<td>Perform follow-up audit and monitoring to ensure recommendations are implemented and mitigate identified risks.</td>
</tr>
</tbody>
</table>
**Current Activities - Status**

<table>
<thead>
<tr>
<th>Title</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Update IAD Charter</td>
<td>Completed</td>
</tr>
<tr>
<td>Realign communications process with MSD/FSD</td>
<td>Working</td>
</tr>
<tr>
<td>Update IA procedures to align with enhanced audit functions</td>
<td>Working</td>
</tr>
<tr>
<td>Reassess IA staff strategic goals and objectives</td>
<td>Working</td>
</tr>
<tr>
<td>Training/Skills realignment for IA staff</td>
<td>On-going</td>
</tr>
<tr>
<td>Evaluate Quality Reviews</td>
<td>Working</td>
</tr>
<tr>
<td>Re-engage the Risk Management Committee</td>
<td>Working</td>
</tr>
<tr>
<td>Wrap-up existing Employer Audits</td>
<td>Completed</td>
</tr>
<tr>
<td>Perform quality reviews for the balance of FY 2018</td>
<td>Completed</td>
</tr>
<tr>
<td>Complete existing audits per audit plan</td>
<td>Working</td>
</tr>
<tr>
<td>Develop the FY 2020-2021 Biennial Plan</td>
<td>Not Started</td>
</tr>
</tbody>
</table>
Preliminary Activities & Services

- IA Risk Assessment and Methodology
  - Risk Management Optimization

- Assessment of Audit tools
  - Integration of Data Analytics
  - Incorporate Lean Concepts
  - Implement Continuous Auditing

- Related Actionable Activities
  - OALC Reporting Measures
  - Comprehensive review of IA policy & processes
  - Quality Assurance and Improvement Plan
  - Improve Fraud Reporting Procedures
  - Expand External Audit Support
  - Administrative tasks review
  - Job Shadowing opportunity
Audit work time available was determined using 1,500 hours for one Full Time Equivalent (FTE) per year and was allocated as follows:

<table>
<thead>
<tr>
<th>Auditor Hours*</th>
<th>Individual</th>
<th>2018 Staff (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total work hours (2,088 hours less vacation, holiday, sick)</td>
<td>1,798</td>
<td>5,394</td>
</tr>
<tr>
<td>Less: Formal training</td>
<td>(40)</td>
<td>(120)</td>
</tr>
<tr>
<td>Meetings</td>
<td>(240)</td>
<td>(720)</td>
</tr>
<tr>
<td>Administrative time, correspondence, time reports, house-keeping, computer delays, other non-chargeable time</td>
<td>(245)</td>
<td>(735)</td>
</tr>
<tr>
<td>Time available to perform audits / audit related (1 year)</td>
<td>1,273</td>
<td>3,819</td>
</tr>
</tbody>
</table>

* The work for Fiscal Year Ending (FYE) 2018 is restricted by the audit hours available. Hours reported above were based on the actual hours expended in FYE 2016/17.
To audit the auditable activities with the frequency identified in the audit plan and risk assessment, the estimated hours required annually to adequately service the agency appear below.

<table>
<thead>
<tr>
<th>Audit Type</th>
<th>2018</th>
<th>% of time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total hours assigned to audits</td>
<td>3,819</td>
<td>71%</td>
</tr>
<tr>
<td><strong>Audit Related</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director/Board Requests</td>
<td>150</td>
<td>3%</td>
</tr>
<tr>
<td>Audit Plan – 2020/2021</td>
<td>100</td>
<td>2%</td>
</tr>
<tr>
<td>IA Process / Planning updates</td>
<td>200</td>
<td>4%</td>
</tr>
<tr>
<td>Advisory / Oversight Services</td>
<td>200</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Subtotal – Audits &amp; Audit Related</strong></td>
<td>4,069</td>
<td>75%</td>
</tr>
<tr>
<td>Office operations, reviewing work, MAP, hiring, other administrative duties</td>
<td>500</td>
<td>9%</td>
</tr>
<tr>
<td>Training, meetings</td>
<td>840</td>
<td>16%</td>
</tr>
<tr>
<td><strong>Total work time per year</strong></td>
<td>5,409</td>
<td>100%</td>
</tr>
</tbody>
</table>
## Preliminary hours allocated for each key activity

<table>
<thead>
<tr>
<th>Audit/ Audit-Related Names</th>
<th>Budgeted Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refunds Process Testing</td>
<td>150</td>
</tr>
<tr>
<td>Service Purchase &amp; CNW Testing</td>
<td>150</td>
</tr>
<tr>
<td>Vendor Efficacy Testing</td>
<td>500</td>
</tr>
<tr>
<td>GASB 68 Testing</td>
<td>400</td>
</tr>
<tr>
<td>Agency Incoming Correspondence</td>
<td>360</td>
</tr>
<tr>
<td>Fraud Hotline</td>
<td>150</td>
</tr>
<tr>
<td>Continuity of Operations (COOP) testing</td>
<td>300</td>
</tr>
<tr>
<td>Management / Investment Fees</td>
<td>500</td>
</tr>
<tr>
<td>Follow Up of Previous Year’s Audits</td>
<td>100</td>
</tr>
<tr>
<td>Cash Controls Audit</td>
<td>500</td>
</tr>
<tr>
<td>Health Insurance Supplements</td>
<td>300</td>
</tr>
<tr>
<td>Pension Disbursements Project</td>
<td>400</td>
</tr>
<tr>
<td><strong>Hours available for 2019 Audits</strong></td>
<td><strong>3,810</strong></td>
</tr>
</tbody>
</table>

An explanation of each audit, the division responsible, the objectives and scope of the audit and the reason for the audit appear on the Appendices.
Arizona State Retirement System
Internal Audit Division

Internal Audit Work Plan
Appendix – Audit Descriptions
Refunds Process Testing

Estimated Hours: FYE 2019 – 150 hours
Division Responsible: FSD
Objectives: To determine if forfeitures are valid and calculated correctly.
Scope will include: A sample will be selected and reviewed twice a year for accuracy.
Reasons for audit frequency: During FYE 2016, 16,396 refunds were issued representing member withdrawals amounting to $249 million. This was identified by the agency as an area of risk per the risk assessment.

BOARD OF TRUSTEES REQUESTED/DELIVER SEMI-ANNUALLY
Estimated Hours: FYE 2019 – 150 hours

Division Responsible: FSD

Objectives: To determine if invoices for service purchase are calculated correctly for both service credit and cost of the service purchased and to determine if they follow the new requirements per ASRS policy.

Scope will include: Examining a representative sample of service purchase invoices prepared. A report will be issued to the ASRS Board in six-month intervals. Each category of service purchase invoices will be tested.

Reasons for audit frequency: For FYE 2016, over 2,400 invoices have been sent to our membership requesting service purchase. Repurchases for FYE 2016 amounted to $25.4 million. This service area was identified as a risk per the agency risk assessment.
Estimated Hours: FYE 2019 – 500 hours

Division Responsible: Agency Wide

Objectives: Ensure the ASRS is actively using the non-investment services it is paying for and that the performance of the services and the accuracy of the billings are monitored.

Scope will include: Sample of vendors for the ASRS selected from FY 2017.

Reason for audit frequency: As of July 2018, the Agency’s Accounts Payable expenditures is ~ $30.9 million.
Estimated Hours: FYE 2019 – 400 hours

Division Responsibility: Agency Wide

Objectives: To determine if: 1) Membership information obtained from the employers and used in the determination of the valuation of the fund is in agreement with the ASRS records. We will be testing the age of the member, eligibility, reported salary, gender, marital status and total credited service.

Scope will include: Twenty seven employers will be picked for audit by the external auditors for fiscal year 2018. They will sample up to twenty five employees from each employer.

Reasons for audit frequency: This is now an annual requirement for all pension plans by the Governmental Accounting Standards Board. To save the agency money on additional audit fees, Internal Audit, under the guidance of the external auditors will do the field work for this new requirement.
Estimated Hours: FYE 2019 – 360 hours

Division Responsible: Agency wide

Objectives: To determine if the agency is effectively and efficiently tracking, processing and responding to all correspondence arriving at the agency from all outside sources.

Scope will include: Reviewing the flow from receipt to resolution of issues on all incoming correspondence in FY 2017.

Reasons for audit frequency: This audit was identified as needed during discussions of the Enterprise Risk Committee.
Estimated Hours: FYE 2019 – 150 hours

Division Responsible: Agency Wide

Objectives: To investigate improprieties from internal or external sources reported to IAD.

Reasons for audit frequency: To satisfy ASRS governance requirements.
Estimated Hours: FYE 2019 – 300 hours

Division Responsible: Agency wide

Objectives: To determine if the agency’s disaster recovery plan can protect data, and business applications and critical technology in the event of a disaster. To determine if the agency’s staff and infrastructure are fully prepared for a disaster; to determine if there are regularly scheduled drills and alternate methods of communicating information to the agency’s staff during a disaster.

Scope will include: Participating in table top drills and testing at the hot site as observers in FY2018.

Reasons for audit frequency: This audit was identified during discussions of the Enterprise Risk Management Committee as needed and should be done on an annual basis.
Estimated Hours: FYE 2019 – 500 hours

Division Responsible: IMD

Objectives: Ensure the ASRS is paying only for investment services contracted for with the Vendor and that the performance of the services and the accuracy of the billings are monitored.

Scope will include: Sample of vendors performing management services for the ASRS selected from FY 2017.

Reason for audit frequency: In 2017, the Agency paid out $251.6 million for investment related expenses.
Estimated Hours: FYE 2019 – 150 hours

Division Responsible: Agency Wide

Objectives: To determine if entities audited in the prior year have successfully addressed and corrected the findings noted during the audit as promised in their responses.

Scope will include: Reviewing the responses to prior audits and reviewing the evidence that the finding has been addressed and corrected.

Reasons for audit frequency: One of the requirements of the *International Standards of Internal Auditing* as implemented by the Institute of Internal Auditors requires the determination that corrective action was taken on all findings brought to management’s attention.
Estimated Hours: FYE 2019 – 500 hours

Division Responsible: Agency Wide

Objectives: Ensure cash controls are operating effectively for certain high risk processes: Annuitant, LTD, and Withdraw Payments; Receipt and handling of Live Checks; Server Security, Application Controls and Application / User Access.

Scope will include: Review of the recommendations from the FY 2017 Cash Control audit to determine implementation status and control testing of identified high risk processes.

Reason for audit frequency: During FY 2017, CLA performed an audit of cash controls resulting in the identification of four areas of high risk.
Estimated Hours: FYE 2019 – 500 hours

Division Responsible: FSD

Objectives: Ensure the ASRS is paying benefit supplements at the proper rate for members, based on eligibility for Medicare and coverage.

Scope will include: Identification of all retirees who are Medicare eligible and those retirees with less than ten years of service.

Reason for audit frequency: A preliminary analysis indicates the Agency paid out ~ $98.4 million in health insurance subsidies to retirees who are over age 65 and should be Medicare eligible. Subsidies are reduced for members and their dependents who are Medicare eligible. Also, members receive no subsidies with less than five years of service, partial subsidies for five to less than ten years of service, and full subsidies with ten or more years of service.
Estimated Hours: FYE 2019 – 400 hours

Division Responsible: FSD

Objectives: Ensure controls are in place to adequately mitigate known risks in the implementation of the new pension disbursement process and to ensure the performance of the service and the accuracy of the billings.

Scope will include: Pre- and Post-implementation testing of controls and sample testing of billings through FYE 2019.

Reason for audit frequency: This is a new internal process with high risk exposure to the agency.
Agenda Item #8
Confidential Materials were provided to the Committee and not included in this book.
Agenda Item #9
MEMORANDUM

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

FROM: Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Martha N. Rozen, Chief of Administrative Services
Mr. Russ Levine, Procurement and Budget Program Manager
Ms. Kerry White, Assistant Chief Investment Officer

DATE: July 19, 2018

RE: Agenda Item #9: Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including:
   a. Presentation/update on the ASRS Appropriated and Continuously Appropriated Budget Plans to include the ASRS Administrative and the Investment Spending Plans for FY 2019.

Purpose
To review the ASRS appropriated and continuously appropriated budgets and the ASRS administrative and investment spending plans for fiscal years (FY) 2019 and 2020.

Recommendation
For agenda item 9.b, staff recommends that the OALC accept and forward to the ASRS Board of Trustees the following:

1) An appropriated budget request for FY 2020 in the amount of $24,130,300, with an understanding there may ultimately be changes to the total appropriated budget amount due to legislative and executive recommendations.

2) The proposed administrative spending plan of $30,799,700, and continuously appropriated investment spending plan of $157,631,100 for FY 2020 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid.

Background
Through a formalized budget process, and in partnership with the executive and legislative branches, the ASRS historically has been able to develop and implement fiscally conservative spending plans that are flexible and support key agency strategic objectives and priorities as well as reflect a commitment to achieving efficiencies through maximizing resources.

See Attachment A – Budget Administration Objective.
A. FY 2019 Appropriated Budget and Spending Plans
The ASRS FY 2019 administrative spending plan includes the following:

- Appropriated special line item funding for the Oracle Forms and Reports Modernization project to achieve a standards-based set of technologies by re-engineering business process to increase productivity, reduce costs, mitigate risks, and improve member service. Expenditures include FTE time and external resources.

- Continuously appropriated funding for the ASRS Benefits Disbursement project to reduce the annual costs, over time, for all categories of disbursements. Expenditures include FTE time, external resources, and equipment purchases.

- Appropriated special line item funding to support a dedicated team to focus on ensuring security practices are built into information technology development processes. Information, privacy and system security requires a sustained effort to maintain and expand fraud detection capabilities, to minimize, identify, and remove vulnerabilities, and to integrate approaches and practices across agency functions. Expenditures include FTE time, and may include external resources, as deemed practicable.


The ASRS FY 2019 investment spending plan includes expenditures for the following in order to meet investment objectives:

**Internal investment management**
- ASRS Investment Management Division (IMD) staff base salaries and employer-paid expenses (benefits and payroll taxes), travel, education and training, rent, and other operational costs.

**External investment management**
- Public Markets
  - Investment management fees. Quarterly investment management fees are calculated based on the market value of the investments, using the assumption of a 7.5% annual rate of return less estimated net cash flows of 2.5%. Accordingly, the fees are directly correlated with both investment performance as well as net cash flows.

  In June 2017, the Combined Asset Class Committee approved the termination of the external active management program. As a result, in FY 2018 the program saved approximately $13 million, or 22%, in fees from FY 2017. The transition to internally managed mandates was completed in May 2018 and is anticipated to further reduce management fees an estimated $12.6 million. The combined estimated manager fee savings from moving to internally-managed mandates will be approximately $26 million.

  - Transactional and other fees include foreign taxes and commissions on derivatives and other incidental costs.

- Private Markets - Private and Opportunistic Equity, Real Estate, Farmland, Infrastructure, and Private and Opportunistic Debt
  - Investment management fees. These fees are calculated based on the percentage of committed capital to the program. These fees are correlated to capital commitments in the program and are calculated on a cash basis.

  - Performance incentive and other fees include performance incentives and carried interest, which are only paid if earned - upon successful performance of the manager after other
return criteria are met – or incurred, and other contractually agreed-upon fees and expenses. Due to the nature of the investments and contingent variables, estimated annual performance incentive and other fees are not projected and are only reported, on a cash basis, when identified and paid.

Consulting fees
- Investment-related consulting and legal fees, electronic information services and subscriptions, custodial banking administrative fees, and external auditing service fees.

See Attachment E for a summary and associated detail of the ASRS investment spending plan.

B. FY 2020 Appropriated Budget Request and Spending Plan
The ASRS FY 2020 appropriated budget request includes the following reductions:

1. A decrease of $500,000 in funding for a special line item for information technology related costs. The removal of this one-year appropriation represents approximately a 2% reduction of the total ASRS appropriated budget.

   The FY 2019 approved budget included costs for IT expenses to continue to fund the agency's efforts to complete tasks designed to further strengthen information systems security controls.

2. A decrease of $400,000 in funding for the administration of the ASRS Long Term Disability (LTD) Program. This request represents approximately an 18.2% reduction of the LTD Administration appropriated budget.

   The ASRS continues to pay significantly less in annual administrative fees to the contracted third-party administrator that now manages the ASRS LTD Program. In addition, the number of ASRS members receiving an LTD benefit has continued to decline over the past several fiscal years.

3. A decrease of five (5) appropriated FTEs.

   As the ASRS has achieved efficiencies, the agency has been able to reallocate staffing resources to appropriately address changing priorities and evolving requirements. These organizational shifts have resulted in an overall reduction in the number of FTEs required to successfully support and manage processes while retaining the ability to maintain an appropriate complement of staff with specialized skills.

The ASRS FY 2020 administrative spending plan includes the following:

- Appropriated special line item funding for the Oracle Forms and Reports Modernization project. Expenditures will continue to include FTE time and external resources.

- Continuously appropriated funding for the ASRS Benefits Disbursement project. This represents the final fiscal year of the project and expenditures will include equipment, licensing, and maintenance.

- Continuously appropriated funding to begin the Information Protection and Security three-plus-year project to increase the security of personally identifiable information (PII) and to create a more robust data logging system in internal ASRS applications. Expenditures include FTE time, external resources, and equipment purchases.

For several years, the ASRS has, in consultation with external firms, assessed its security and privacy maturity and has implemented processes to improve physical, data, privacy, and cash...
control security. Additional modifications to ASRS applications designed to mitigate risks, including the addition of more robust application monitoring tools for internal users and strategies to shrink the amount of data, will further reduce access and exposure to PII during the course of performing business functions, as well as will improve the ASRS’s privacy and security posture.

See Attachments D, F, and G for a summary and associated detail of the ASRS FY 2020 appropriated budget request and Attachment H for the FY 2020 administrative spending plan.

The ASRS FY 2020 investment spending plan includes the following:

- Continuously appropriated funding for the ASRS investment management program. Expenditures include investment management, consulting, legal, custodial banking, and external financial services fees, data subscriptions and analytics services, and FTE salaries and benefits, as well as travel, education, and other operational costs.

See Attachment E for a summary and associated detail of the ASRS investment spending plan.

Attachments

<table>
<thead>
<tr>
<th>Agenda Item 9.a</th>
<th>Agenda Item 9.b</th>
</tr>
</thead>
<tbody>
<tr>
<td>A: ASRS Budget Administration Objective</td>
<td>F: FY 2020 Appropriated Budget Request</td>
</tr>
<tr>
<td>B: FY 2019 ASRS Budget Overview</td>
<td>G: FY 2020 Appropriated Budget Detail</td>
</tr>
<tr>
<td>C: FY 2019 ASRS Administrative Spending Plan</td>
<td>H: FY 2020 ASRS Administrative Spending Plan</td>
</tr>
<tr>
<td>D: Administrative Projects Detail</td>
<td>D: Administrative Projects Detail</td>
</tr>
<tr>
<td>E: ASRS Investment Spending Plan</td>
<td>E: ASRS Investment Spending Plan</td>
</tr>
</tbody>
</table>
**Operations Goal 4**
Ensure consistent, high performance within the agency by supporting an effective operating cost structure and a workforce that reflects agency values.

### Budget Administration

**Owner:** Budget and Procurement Manager  
**Reporting Venues:** Executive/Senior Management Team  
**Reporting Frequency:** Monthly/Annually

**Objective:**
1. Develop and implement fiscally conservative budgets and spending plans that are flexible and able to meet agency objectives and priorities

<table>
<thead>
<tr>
<th>Measures</th>
<th>Type</th>
<th>Standard</th>
<th>Frequency</th>
<th>Risk Tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stability</strong> Total annual administrative expense variance**</td>
<td>Outcome</td>
<td>-1.5%</td>
<td>Monthly/Annually</td>
<td>+3.0%</td>
</tr>
<tr>
<td>(including special line item expenditures for service/security enhancements and anticipated cost reductions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reductions</strong> Total 3-year change in base administrative expenses by June 30, 2020 (excluding special line item expenditures)</td>
<td>Outcome</td>
<td>-3%</td>
<td>Monthly/Annually</td>
<td>-3%</td>
</tr>
<tr>
<td><strong>FTE Reduction from FY 2018 to FY 2020</strong></td>
<td>Outcome</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of key performance indicators for agency priorities not met due to budget constraints</strong></td>
<td>Outcome</td>
<td>0</td>
<td>Annual</td>
<td>2</td>
</tr>
<tr>
<td><strong>Timely submission of budget to governor’s office</strong></td>
<td>Output</td>
<td>September 1</td>
<td>Annual</td>
<td>September 1</td>
</tr>
</tbody>
</table>
ASRS Budget Overview
FY 2019

Personal Services and Employee Related Expenses $ 18,281,900
Professional & Outside Services $ 1,277,400
Travel $ 79,000
Other Operating Expenditures $ 2,302,500
Equipment $ 389,500

FY 2019 ASRS Appropriated Operating Budget $ 22,330,300
## FY 2019

### ASRS Administrative Spending Plan

#### Base Administrative Budget

<table>
<thead>
<tr>
<th>Category</th>
<th>Appropriations</th>
<th>Long Term Disability Appropriations</th>
<th>One-Time IT Expenses (Information Systems Security)</th>
<th>Pension Payroll, Rent, and Actuarial Fees Continuous Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Services (PS) and Employee Related Expenses (ERE)</td>
<td>17,712,000</td>
<td>474,000</td>
<td>796,300</td>
<td>18,782,300</td>
</tr>
<tr>
<td>Salaries and wages, employer costs for benefits, taxes, and ADOA Charges</td>
<td>260,500</td>
<td>-</td>
<td>-</td>
<td>260,500</td>
</tr>
<tr>
<td>Investment Incentive Compensation Plan payments to investment management employees</td>
<td>309,400</td>
<td>-</td>
<td>-</td>
<td>309,400</td>
</tr>
<tr>
<td><strong>Total PS and ERE</strong></td>
<td><strong>18,281,900</strong></td>
<td><strong>474,000</strong></td>
<td><strong>796,300</strong></td>
<td><strong>19,352,200</strong></td>
</tr>
<tr>
<td><strong>Professional and Outside Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTD Program administrative costs for claim processing</td>
<td>2,200,000</td>
<td>-</td>
<td>-</td>
<td>2,200,000</td>
</tr>
<tr>
<td>Pension payroll disbursement processing</td>
<td>1,186,500</td>
<td>-</td>
<td>-</td>
<td>1,186,500</td>
</tr>
<tr>
<td>IT development support and business applications</td>
<td>640,800</td>
<td>-</td>
<td>-</td>
<td>640,800</td>
</tr>
<tr>
<td>Actuarial and benefit consulting services</td>
<td>420,000</td>
<td>-</td>
<td>-</td>
<td>420,000</td>
</tr>
<tr>
<td>IT security professional services and consulting</td>
<td>366,000</td>
<td>-</td>
<td>-</td>
<td>366,000</td>
</tr>
<tr>
<td>Legal fees for external counsel, attorney general charges/staff, administrative hearing costs</td>
<td>268,100</td>
<td>-</td>
<td>-</td>
<td>268,100</td>
</tr>
<tr>
<td><strong>Total External Professional Services</strong></td>
<td><strong>1,277,400</strong></td>
<td><strong>2,200,000</strong></td>
<td><strong>26,000</strong></td>
<td><strong>1,606,500</strong></td>
</tr>
<tr>
<td><strong>Travel</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In-state travel for member and employer outreach</td>
<td>30,000</td>
<td>-</td>
<td>-</td>
<td>30,000</td>
</tr>
<tr>
<td>Out-of-state travel to pension industry and educational conferences</td>
<td>49,000</td>
<td>-</td>
<td>-</td>
<td>49,000</td>
</tr>
<tr>
<td><strong>Total Travel</strong></td>
<td><strong>79,000</strong></td>
<td><strong>2,200,000</strong></td>
<td><strong>26,000</strong></td>
<td><strong>85,300</strong></td>
</tr>
<tr>
<td><strong>Other Operating Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office rent</td>
<td>1,519,000</td>
<td>-</td>
<td>-</td>
<td>1,519,000</td>
</tr>
<tr>
<td>Software licenses and support</td>
<td>1,325,900</td>
<td>-</td>
<td>-</td>
<td>1,325,900</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>279,600</td>
<td>-</td>
<td>-</td>
<td>279,600</td>
</tr>
<tr>
<td>ADOA Risk Management insurance premiums</td>
<td>279,600</td>
<td>-</td>
<td>-</td>
<td>279,600</td>
</tr>
<tr>
<td>Newsletter printing and mailing</td>
<td>120,000</td>
<td>-</td>
<td>-</td>
<td>120,000</td>
</tr>
<tr>
<td>Professional dues, subscriptions, and publications</td>
<td>191,000</td>
<td>-</td>
<td>-</td>
<td>191,000</td>
</tr>
<tr>
<td>Postage and delivery</td>
<td>103,700</td>
<td>-</td>
<td>-</td>
<td>103,700</td>
</tr>
<tr>
<td>Education, training and conferences, employee tuition assistance</td>
<td>30,000</td>
<td>-</td>
<td>-</td>
<td>30,000</td>
</tr>
<tr>
<td>Equipment repair and maintenance</td>
<td>25,000</td>
<td>-</td>
<td>-</td>
<td>25,000</td>
</tr>
<tr>
<td>Other operating supplies and expenditures</td>
<td>60,000</td>
<td>-</td>
<td>-</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Total Other Operating Expenditures</strong></td>
<td><strong>2,302,500</strong></td>
<td><strong>2,200,000</strong></td>
<td><strong>26,000</strong></td>
<td><strong>4,116,200</strong></td>
</tr>
<tr>
<td><strong>Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agency furniture purchases/replacement</td>
<td>39,500</td>
<td>-</td>
<td>-</td>
<td>39,500</td>
</tr>
<tr>
<td>Network, server, PC and related devices replacement and additions</td>
<td>350,000</td>
<td>-</td>
<td>-</td>
<td>350,000</td>
</tr>
<tr>
<td><strong>Total Equipment</strong></td>
<td><strong>389,500</strong></td>
<td><strong>2,200,000</strong></td>
<td><strong>500,000</strong></td>
<td><strong>4,016,500</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>22,330,300</strong></td>
<td><strong>2,200,000</strong></td>
<td><strong>500,000</strong></td>
<td><strong>29,046,800</strong></td>
</tr>
</tbody>
</table>

#### Administrative Projects Budget

<table>
<thead>
<tr>
<th>Category</th>
<th>Appropriations</th>
<th>Special Line Item Appropriations</th>
<th>Continues Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Administrative Budget</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>One-Time IT Expenses (Information Systems Security)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22,330,300</strong></td>
<td><strong>2,200,000</strong></td>
<td><strong>500,000</strong></td>
</tr>
</tbody>
</table>

#### FY 2018 Appropriated/Budgeted Amounts

<table>
<thead>
<tr>
<th>Category</th>
<th>Appropriations</th>
<th>Special Line Item Appropriations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY 2018 Appropriated/Budgeted Amounts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Difference from FY 2018</strong></td>
<td><strong>(337,400)</strong></td>
<td><strong>(350,000)</strong></td>
<td><strong>(370,000)</strong></td>
</tr>
</tbody>
</table>

**% Difference from FY 2018**

-1.5% -12.0% -5.6% -1.3% 21.9% -21.0% -0.9%

**Attachment C**
Administrative Projects Detail

FY 2014 to FY 2020
Automation Upgrades Special Line Item Appropriations (Non-Lapsing) (PIJ RT13001: Oracle Forms and Reports Modernization)

Objective: Evolve legacy technologies to newer open standards-based technologies and re-engineer business processes to increase productivity, reduce costs, mitigate risks, protect and secure information, improve member satisfaction and improve service turnaround time to members.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1,390,000</td>
<td>4,484,500</td>
<td>2,270,000</td>
<td>2,070,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,214,500</td>
</tr>
</tbody>
</table>

APPROPRIATED LINE ITEM BUDGET

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1,117,400</td>
<td>1,736,200</td>
<td>909,100</td>
<td>1,041,100</td>
<td>1,402,400</td>
<td>1,682,300</td>
<td>2,346,000</td>
<td>10,214,500</td>
</tr>
</tbody>
</table>

ACTUAL AND ESTIMATED SPEND

FY 2016 to FY 2020
Benefits Disbursement Continuous Appropriations (PIJ RT15003: ASRS Benefits Disbursement)

Objective: Develop platform and disbursement-related processes to administer the entire benefit cycle in-house, which includes benefit calculations, electronic payment transmission, printing/mailing checks and remittance advices, and tax withholding/reporting.

<table>
<thead>
<tr>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>Project Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>950,400</td>
<td>658,100</td>
<td>676,800</td>
<td>696,000</td>
<td>35,500</td>
<td>3,016,800</td>
</tr>
</tbody>
</table>

PJ FUNDING PROJECTION

<table>
<thead>
<tr>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>Project Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>637,700</td>
<td>691,700</td>
<td>923,400</td>
<td>728,500</td>
<td>35,500</td>
<td>3,016,800</td>
</tr>
</tbody>
</table>

ACTUAL AND ESTIMATED SPEND

FY 2020 to FY 2023
Information Protection and Security Project Continuous Appropriations

Objective: Increase the security of Personally Identifiable Information and create a more robust data logging system for internal applications.

<table>
<thead>
<tr>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>Project Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>758,600</td>
<td>765,600</td>
<td>758,600</td>
<td>484,200</td>
<td>2,767,000</td>
</tr>
</tbody>
</table>

FUNDING PROJECTION

<table>
<thead>
<tr>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>Project Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>758,600</td>
<td>765,600</td>
<td>758,600</td>
<td>484,200</td>
<td>2,767,000</td>
</tr>
</tbody>
</table>

ESTIMATED SPEND
## ASRS Investment Spending Plan

### Investment Management Expenses**

<table>
<thead>
<tr>
<th></th>
<th>FY 2018 ESTIMATED</th>
<th>FY 2019 PROJECTION</th>
<th>FY 2020 PROJECTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Investment Management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>$1,437,600</td>
<td>$1,459,600</td>
<td>$1,459,600</td>
</tr>
<tr>
<td>Investment Incentive Compensation Plan (ICP)*</td>
<td>$253,200</td>
<td>$309,400</td>
<td>$309,400</td>
</tr>
<tr>
<td>Travel, education and training, rent, and other operational expenses</td>
<td>$249,900</td>
<td>$240,900</td>
<td>$241,800</td>
</tr>
<tr>
<td><strong>Public Markets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External investment management fees</td>
<td>$43,765,800</td>
<td>$32,319,000</td>
<td>$34,301,000</td>
</tr>
<tr>
<td>Transactional and other fees</td>
<td>$6,193,800</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td><strong>Private Markets</strong> **</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private and opportunistic equity management fees</td>
<td>$42,669,600</td>
<td>$58,237,000</td>
<td>$61,993,000</td>
</tr>
<tr>
<td>Real estate, farmland and infrastructure management fees</td>
<td>$7,482,200</td>
<td>$15,512,000</td>
<td>$15,312,000</td>
</tr>
<tr>
<td>Private and opportunistic debt management fees</td>
<td>$9,375,900</td>
<td>$23,669,800</td>
<td>$24,899,000</td>
</tr>
<tr>
<td>Custodial Banking, Security Lending and Master Cash STIF Fees</td>
<td>$2,976,900</td>
<td>$3,201,000</td>
<td>$3,695,000</td>
</tr>
<tr>
<td><strong>Investment Management Expenses Subtotal</strong></td>
<td>$114,404,900</td>
<td>$139,948,700</td>
<td>$147,210,800</td>
</tr>
</tbody>
</table>

### Investment Related Consulting, Legal and Information Services Expenses***

<table>
<thead>
<tr>
<th></th>
<th>FY 2018 ESTIMATED</th>
<th>FY 2019 PROJECTION</th>
<th>FY 2020 PROJECTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Consulting Services</td>
<td>$3,745,100</td>
<td>$4,941,800</td>
<td>$5,006,500</td>
</tr>
<tr>
<td>Investment Related Legal Services</td>
<td>$3,168,100</td>
<td>$2,647,500</td>
<td>$2,905,800</td>
</tr>
<tr>
<td>Investment Electronic Information Services</td>
<td>$2,383,300</td>
<td>$2,277,900</td>
<td>$2,386,500</td>
</tr>
<tr>
<td>External Financial Consulting Services</td>
<td>$113,500</td>
<td>$121,500</td>
<td>$121,500</td>
</tr>
<tr>
<td><strong>Services Expenses Subtotal</strong></td>
<td>$9,410,000</td>
<td>$9,988,700</td>
<td>$10,420,300</td>
</tr>
</tbody>
</table>

**Total Continuously Appropriated Investment Expenses** | $123,814,900 | $149,937,400 | $157,631,100 |

---

* The ICP is paid with base operating budget appropriated dollars.

** Due to the nature of the investments and contingent variables, estimated annual performance incentive and other certain fees and expenses that are contractually agreed upon are not projected and are only reported, on a cash basis, when identified and paid. The ASRS paid approximately $101,169,000 in performance incentive and other fees in FY 2018.

***Arizona Revised Statute § 38-721(C) specific expenditures are continuously appropriated in the amount necessary to meet the Board's investment objectives, including investment management and related consulting fees.
## FY 2020 Appropriated Budget Request

<table>
<thead>
<tr>
<th></th>
<th>FY 2018 Appropriations</th>
<th>FY 2019 Appropriations</th>
<th>Request FY 2020 Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Appropriated FTEs</strong></td>
<td>250.9</td>
<td>245.9</td>
<td>240.9</td>
</tr>
<tr>
<td>Personal Services &amp; Employee Related Expenditures</td>
<td>$18,335,800</td>
<td>$18,281,900</td>
<td>$18,281,900</td>
</tr>
<tr>
<td>Professional and Outside Services</td>
<td>$1,292,400</td>
<td>$1,277,400</td>
<td>$1,277,400</td>
</tr>
<tr>
<td>Travel - In State</td>
<td>$30,000</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Travel - Out of State</td>
<td>$49,000</td>
<td>$49,000</td>
<td>$49,000</td>
</tr>
<tr>
<td>Other Operating Expenditures</td>
<td>$2,571,000</td>
<td>$2,302,500</td>
<td>$2,302,500</td>
</tr>
<tr>
<td>Equipment</td>
<td>$389,500</td>
<td>$389,500</td>
<td>$389,500</td>
</tr>
<tr>
<td><strong>Base Operating Budget Subtotal</strong></td>
<td>$22,667,700</td>
<td>$22,330,300</td>
<td>$22,330,300</td>
</tr>
<tr>
<td>Long Term Disability Program Administration (LTD)</td>
<td>$2,500,000</td>
<td>$2,200,000</td>
<td>$1,800,000</td>
</tr>
<tr>
<td><strong>Total Appropriated Operating Budget</strong></td>
<td>$25,167,700</td>
<td>$24,530,300</td>
<td>$24,130,300</td>
</tr>
<tr>
<td>Special Line Item Appropriations</td>
<td>$-</td>
<td>$500,000</td>
<td>$-</td>
</tr>
<tr>
<td>One-time IT Expenses</td>
<td>$-</td>
<td>$500,000</td>
<td>$-</td>
</tr>
<tr>
<td><strong>Total Appropriated Budget</strong></td>
<td>$25,167,700</td>
<td>$25,030,300</td>
<td>$24,130,300</td>
</tr>
</tbody>
</table>

### Changes to Appropriations

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 2019</th>
<th>FY 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2019 - One-time IT Expenses</td>
<td>$112,400</td>
<td>- $137,400</td>
</tr>
<tr>
<td>FY 2019 - LTD Administration Fees</td>
<td>$225,000</td>
<td>- $500,000</td>
</tr>
<tr>
<td>FY 2019 &amp; FY 2020 - One-time IT Expenses</td>
<td>$300,000</td>
<td>- $400,000</td>
</tr>
<tr>
<td>FY 2019 &amp; FY 2020 - LTD Administration Fees</td>
<td>$500,000</td>
<td>- $500,000</td>
</tr>
</tbody>
</table>

**Subtotals**

<table>
<thead>
<tr>
<th>Change relative to FY 2018 Total Appropriated Budget</th>
<th>-5.0%</th>
<th>-2.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change relative to FY 2019 Total Appropriated Budget</td>
<td>-5.0%</td>
<td>-2.0%</td>
</tr>
</tbody>
</table>

Attachment F
# FY 2020 Appropriated Budget Request Detail

**Objective:** To demonstrate the ASRS commitment to achieving efficiencies through maximizing resources and to developing fiscally conservative budgets.

<table>
<thead>
<tr>
<th>Special Line Item</th>
<th>FY 2019 Appropriations</th>
<th>Request FY 2020 Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Special Line Item</strong></td>
<td>500,000</td>
<td>-</td>
</tr>
<tr>
<td>One-time IT Expenses Appropriated in FY 2019</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SPECIAL LINE ITEM APPROPRIATION**

<table>
<thead>
<tr>
<th></th>
<th>FY 2019</th>
<th>Request FY 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DIFFERENCE</strong></td>
<td>$ (500,000)</td>
<td></td>
</tr>
<tr>
<td><strong>% REDUCTION OF TOTAL APPROPRIATIONS</strong></td>
<td>-2.0%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Long Term Disability (LTD) Administration</strong></th>
<th>2,200,000</th>
<th>1,800,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration costs of the LTD program</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**LTD APPROPRIATED BUDGET**

<table>
<thead>
<tr>
<th></th>
<th>FY 2019</th>
<th>Request FY 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DIFFERENCE</strong></td>
<td>$ (400,000)</td>
<td></td>
</tr>
<tr>
<td><strong>% REDUCTION OF LTD ADMINISTRATION APPROPRIATIONS</strong></td>
<td>-18.2%</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL DIFFERENCE**

<table>
<thead>
<tr>
<th></th>
<th>FY 2019</th>
<th>Request FY 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL DIFFERENCE</strong></td>
<td>$ (900,000)</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL % INCREASE OF TOTAL APPROPRIATIONS</strong></td>
<td>-3.6%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Full-Time Equivalents</strong></th>
<th>245.9</th>
<th>240.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing resources</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**APPROPRIATED FTES**

<table>
<thead>
<tr>
<th></th>
<th>FY 2019</th>
<th>Request FY 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DIFFERENCE</strong></td>
<td>(5.00)</td>
<td></td>
</tr>
<tr>
<td><strong>% REDUCTION OF APPROPRIATED FTES</strong></td>
<td>-2.0%</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL DIFFERENCE**

<table>
<thead>
<tr>
<th></th>
<th>FY 2019</th>
<th>Request FY 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL DIFFERENCE</strong></td>
<td>(5.00)</td>
<td></td>
</tr>
</tbody>
</table>
## FY 2020
### ASRS Administrative Spending Plan

#### Personal Services (PS) and Employee Related Expenses (ERE)
- Salaries and wages, employer costs for benefits, taxes, and ADOA Charges: 17,712,000
- Variable Compensation Strategies Plan payments to employees: 260,500
- Investment Incentive Compensation Plan payments to investment management employees: 309,400

**Total PS and ERE:** 18,281,900 - 1,192,700 = 19,474,600

#### Professional and Outside Services
- LTD Program administrative costs for claim processing: 1,800,000
- Pension payroll disbursement processing: 141,500
- IT development support and business applications: 743,900
- Actuarial and benefit consulting services: 340,000
- IT security professional services and consulting: 270,100
- Legal fees for external counsel, attorney general charges/staff, administrative hearing costs: 270,100

**Total External Professional Services:** 1,277,400 - 1,800,000 = 481,500

#### Travel
- In-state travel for member and employer outreach: 30,000
- Out-of-state travel to pension industry and educational conferences: 49,000

**Total Travel:** 79,000

#### Other Operating Expenditures
- Office rent: 1,554,100
- Software licenses and support: 1,337,900
- Telecommunications: 276,000
- ADOA Risk Management insurance premiums: 279,600
- Newsletter printing and mailing: 120,000
- Professional dues, subscriptions, and publications: 309,900
- Postage and delivery: 109,900
- Education, training and conferences; employee tuition assistance: 30,000
- Equipment repair and maintenance: 25,000
- Other operating supplies and expenditures: 54,000

**Total Other Operating Expenditures:** 2,302,500 - 1,855,000 = 447,500

#### Equipment
- Agency furniture purchases/replacement: 20,000
- Network, server, PC and related devices replacement and additions: 369,500

**Total Equipment:** 389,500 - 389,500 = 0

**TOTAL**

| FY 2019 Appropriated/Budgeted Amount | $22,330,300 | $1,800,000 | $2,329,200 | $23,859,500 | $2,346,000 | $758,700 | $25,300 | $20,799,700 |
| Difference from FY 2019 | $ (500,000) | ($400,000) | (487,300) | (1,387,300) | 683,700 | 758,700 | (693,000) | (637,900) |
| % Difference from FY 2019 | -2.2% | -18.2% | -12.1% | -4.8% | 41.1% | -95.1% | -2.0% |

*Arizona Revised Statutes § 38-721(C) lists specific expenditures that are continuously appropriated in the amount deemed necessary by the Board, including rent, actuarial consulting fees, and costs associated with administering retiree pension benefits and disbursements

**Special Line Item amount of $500,000 included

Attachment H