

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

**Wednesday, October 13, 2021
2:30 p.m., Arizona Time**

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

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

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Rene Guillen, Chair (via teleconference)
Ms. Ashley Ruiz (via teleconference)

One vacant position.

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

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

2. Approval of the Minutes of the April 14, 2021, Public Meeting and Executive Sessions of the OALC

Motion: Mr. Rene Guillen moved to approve the Minutes of the July 21, 2021, Public Meeting and Executive Session of the OALC. Ms. Ashley Ruiz seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

3. Presentation, Discussion, and Appropriate Action Regarding the 2022 Legislative Initiatives

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, presented the proposed 2022 Legislative Agenda and the list of legislative changes in draft form for the Committee's review. Ms. Thomas went on to explain that each year suggestions are solicited for changes that

may be needed and this year there will be only one bill presented that contains numerous changes to various statutes. The purpose of these changes is to remove old, unnecessary language and provide better clarity to the statutes and consistency with ASRS processes.

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

Mr. Paul Matson, Director, added these changes are considered technical in nature with the exception of one. Mr. Matson directed the Committee to the page of the materials that documented Arizona Revised Statute § 38-764 which deals with an incapacitated member which is covered by other state statutes.

Motion: Mr. Rene Guillen moved to recommend moving the appropriate 2022 ASRS legislative initiatives to the Board for approval. Ms. Ashley Ruiz seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

- 4. Presentation, Discussion, and Appropriate Action Regarding Rulemakings Relating to:**
 - a. Required Minimum Distributions (RMD)**
 - b. Overpayments**
 - c. Domestic Relations Orders (DRO)**
 - d. Service Purchase**
 - e. Health Insurance Appeals**
 - f. The Five-Year Review Report (5YRR) for 2 A.A.C. 8, Articles 6 and 7 relating to Public Participation in the Rulemaking Process and Contributions Not Withheld**

Ms. Thomas presented six rulemakings to the Committee indicating four had been approved as part of the 2021 Regulatory Agenda and now the Committee was being provided the draft language for each of the rulemakings listed on the 2021 Regulatory Agenda. Ms. Thomas further stated the other two rulemakings were also approved by the Committee but were not listed on the Regulatory Agenda.

Ms. Thomas provided the following highlights for each of the rulemakings:

- RMD – clarify that someone who has reached the RMD threshold is still eligible to receive a long-term disability benefit as well as an RMD of their pension benefit
- Overpayments – clarify how the ASRS may collect an overpayment, in addition to updating some references
- DRO – clarifying various rules relating to DRO's, in addition to creating/adopting new language that clarifies how someone may submit an appropriate DRO to the ASRS
- Service Purchase – adopt a definition of what “another employee retirement system” means, which will clarify how the ASRS processes Service Purchase requests
- Health Insurance Appeals – relates to the self-insured program anticipated to go into effect January 2022 – clarifies how appeals will be handled for health plans at the ASRS
- 5YRR – minor changes related to the report submitted to the Governor’s Regulatory Review Council earlier this year

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

Motion: Mr. Rene Guillen moved approval to proceed with the regular rulemaking to amend rules relating to RMD. Ms. Ashley Ruiz seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

Motion: Mr. Rene Guillen moved approval to proceed with the regular rulemaking to amend rules relating to the collection of overpayments. Ms. Ashley Ruiz seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

Motion: Mr. Rene Guillen moved approval to proceed with the regular rulemaking to amend rules relating to how a DRO may be submitted to the ASRS. Ms. Ashley Ruiz seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

Motion: Mr. Rene Guillen moved approval to proceed with the regular rulemaking to amend rules relating to how “another public employee retirement system” is defined for purposes of service purchase. Ms. Ashley Ruiz seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

Motion: Mr. Rene Guillen moved approval to proceed with the regular rulemaking process to establish appeals rules relating to retiree health insurance under a self-insured program. Ms. Ashley Ruiz seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

Motion: Mr. Rene Guillen moved approval to proceed with the expedited rulemaking to amend rules consistent with the 5YRR that was approved by the Governor’s Regulatory Review Council in April 2021. Ms. Ashley Ruiz seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

5. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Division’s Five-Year Peer Review Report

Mr. Harold Mackey, Chief Internal Auditor, provided a brief summary of the purpose of the Five-Year Peer Review prior to introducing Mr. Kurt Petrie, Internal Audit Manager, State of Wisconsin Investment Board, who conducted the assessment.

Mr. Petrie took a moment to provide his professional background to the Committee and then opened with a very brief overview of the process and a summary of the objective of this review. The objective is to verify the Internal Audit Division’s (IAD) assertion they are conforming to the Institute of Internal Auditors’ (IIA) Standards.

The overall opinion is the internal audit activity generally confirms with the IIA International Standards for the Professional Practice of Internal Auditing. “Generally conforms” is the highest ranking that can be given. Opportunities for continuous improvement were also noted.

Mr. Petrie reviewed the successful practices and stated Mr. Mackey should be praised for being a valued member of the executive staff. Mr. Petrie noted that during the interviews with executive staff, all commented on the value the Chief Internal Auditor brought to the organization. Another note was how the audit plan and the strategic goals of the organization were connected which Mr. Petrie admitted he was going to take back to his own organization to implement. Also noted was the commitment to continuing professional education for Mr. Mackey and his audit team.

Mr. Petrie concluded with value added suggestions of opportunities for continuous improvement as follows:

- Consider adding definitions to the audit charter for assurance services and consulting services
- Consider annual review of the audit charter by the OALC and the Board
- Consider an interference policy either in the audit charter or the audit manual
- Consider requesting external feedback during planning of the annual audit plan
- Consider annual reporting to management and the Board the independence of internal activity

Mr. Guillen thanked Mr. Petrie for stepping in to conduct this assessment. Mr. Guillen noted his concurrence with the recommendation that the Audit Charter be reviewed annually and intends to explore this further. He also expressed an interest in the potential interference policy.

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

Mr. Mackey opened by stating that although the IAD typically conducts annual affirmations internally, it has not brought it forth to the OALC or the Board and has made a change in this process based on a peer review suggestion. Therefore, the first document of the presentation was an affirmation pertaining to the IAD's ethics, independence and conformance to standards. Also included was a disclosure pertaining to the Quality Assurance and Improvement Program, which will be conducted annually.

Mr. Mackey did not review the Annual Report. He stated it summarized what the IAD has been working on throughout this past year and opened it up to questions from the Committee. There were none.

7. Review of Recently Conducted Audits

- **SWIFT Customer Security Controls Framework (CSCF) Assessment Report FY 2022**

Mr. Mackey began by stating this audit was not specifically noted in the annual Audit Plan; however, this was an audit requested by the Director, which is a line item in the Audit Plan.

The purpose of the audit was to perform an initial assessment of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) implementation using Bloomberg.

The end result is the ASRS is in compliance with the SWIFT mandatory and advisory control objectives and the IAD did not have to perform a full detailed assessment of all the components. The Investment Management Division has provided the necessary information for attestation.

Mr. Mackey opened it up to questions from the Committee; there were none.

8. Presentation, Discussion, and Appropriate Action Regarding the 2022 Calendar Year OALC Meeting Schedule

Motion: Mr. Rene Guillen moved to approve the OALC meeting schedule for calendar year 2022 as presented. Ms. Ashley Ruiz seconded the motion.

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved

Ms. Ashley Ruiz – approved

9. Call to the Public

No members of the public requested to speak.

Due to time constraints, Mr. Guillen elected to move forward and address agenda items #11 and #12 prior to agenda item #10 and its executive session.

11. Requests for Future Agenda Items (*agenda item was reordered*)

None were requested.

12. The next regular public OALC meeting is tentatively scheduled for Wednesday, January 12, 2022, at 2:30 p.m.

Mr. Rene Guillen noted the next OALC meeting is scheduled for Wednesday, January 12, 2022, at 2:30 p.m.

10. Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program (*resumed original order of agenda*)

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

By a roll call vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused and 1 vacancy, the motion was approved. The Trustee votes were as follows:

Mr. Rene Guillen – approved
Ms. Ashley Ruiz – approved

The Committee convened to Executive Session at 3:10 p.m.

The Committee reconvened to Public Session at 3:38 p.m.

13. Adjournment of the OALC

Mr. Guillen adjourned the meeting at 3:39 p.m.

Respectfully Submitted,

Melanie Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM