



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

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

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

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

1. Call to Order; Roll Call; Opening Remarks

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

Absent: Mr. Clark Partridge

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

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

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

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

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

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

a. Risk Assessments

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

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

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

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

b. Information Security Efforts

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

The next external assessment will be conducted in 2016.

c. Information Privacy Efforts

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

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

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

d. Employer Customer Service Model

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

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

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

e. Workforce Planning

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

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

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

f. Technology Development: Oracle Modernization

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

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

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

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

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

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

b. Website Analytics Status Report.

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

Mr. King responded to questions from the Committee.

5. Review of Recently Conducted Audits

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

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

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

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

- **Williams USD – Employer Audit**

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

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

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

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

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

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

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

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

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

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

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

8. Request for Future Agenda Items

To continue and possibly finalize the discussions to:

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

9. Call to the Public

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

10. Adjournment of the OAC

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

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

Respectfully Submitted,

ARIZONA STATE RETIREMENT SYSTEM

Melanie Alexander
Committee Administrator

Anthony Guarino
Deputy Director and Chief Operations Officer