

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

**Wednesday, JANUARY 12, 2022
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 telephonically, with some attending in-person, in the 10th Floor Board Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

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 (in person)
Ms. Ashley Ruiz, Vice-chair (via teleconference)

Also Present: Ms. Sarah Rose Webber

One vacant position.

A quorum of the Committee was present to conduct business.

Ms. Bridget French, ASRS Committee Administrator, provided all attendees with telephonic meeting guidelines.

2. Approval of the Minutes of the October 13, 2021, Public Meeting and Executive Sessions of the OALC

Motion: Mr. Rene Guillen moved to approve the Minutes of the October 13, 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 2021 Employer Survey Results

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer opened by stating the importance that employers see value in our plans and benefits. The ASRS exists to help public employers retain quality personnel. It is our mission. Once a year, the ASRS sends out a perception survey asking about the quality of our administration and if they are adequately supported. Our results this year are good but could be better.

Ms. Katie Daigneault, Strategic Planner and Survey Administrator, began the presentation of the 2020 Employer Perception Survey. (Technical difficulties required Ms. Daigneault to turn over the presentation to Mr. Guarino)

Mr. Guarino presented highlights of this report:

- Overall, employers are satisfied with the service we provide, and they feel that the ASRS contributes to the total compensation package
- ASRS helps them to attract new employees and retain current employees
- 83% said plans are useful and attract new employees
- 81% think it helps to retain employees

Mr. Guillen commented that they are good scores but are not the target. The ASRS needs to look at ways the plan can help employers communicate the value that the ASRS provides. Contribution rates went up as a result of adopting an Experience Study, which drives negative feelings or value perception. ASRS has seen the projections and expect contribution rates to drop and are committed to normal costs. There are other factors broader than the results. Education and communication can help.

Mr. Guarino highlighted the following:

- Employers are reporting concern over affordability and manageability
- ASRS reported in November a funding policy and a long-term plan that includes getting to 7% from 12%
- The Net Promoter Score (NPS) ranges from -100 to +100 and anything over a 0 is what a lot of agency's goals are, but we set our target at 50 and we are at 41.4, a drop from 46 last year, which is not up to ASRS standards

Ms. Sara Orozco, Manager, Strategic Planning and Communications, commented that there has been a high turnover of employers' employees this year, especially in Human Resources (HR) and Payroll, who themselves have only been with the ASRS for a year or less and we are asking them to communicate to new employees the value of the ASRS. The strategy going forward is to be proactive and reach new members. A condensed new employee handbook with ten pages or less is our goal rather than the 50-page version. Ms. Orozco added the ASRS has started monthly targeted communication to active members called Futures. Futures has one highlighted article, a couple of resources and a video. Short and sweet. One nugget of information each month. ASRS just finished our first year of Futures and are very pleased with the reception and open rates. ASRS will continue to look at these responses to help employers. They want help in communicating the virtues of the ASRS as most people are familiar with 401ks, IRAs and don't understand these plans.

Mr. Guillen stated that much of this is outside of our control. It is less common to know what a defined benefit plan is. Our employers entering into ASRS for the first time are not educated in our plan. Anything we can do to help employers will drive a greater understanding, appreciation, and value of our program. HR struggles with so much onboarding material and not enough time

to present it makes it more difficult to relay this information. Employees will not read a 200-page employee handbook their first week at work. Mr. Guillen is glad to see that the ASRS understands how important it is that employees have enough information for a good understanding without making it overwhelming.

Ms. Orozco stated that a large employer is more likely to have a thorough onboarding process while a smaller employer may not have a dedicated HR person. The ASRS is trying to meet all these needs. The Member Services Division (MSD) also gives targeted training with employers for new employer representatives.

Mr. Jeremiah Scott, Assistant Director, MSD stated that the employers voiced that they would like expanded training to their new hires and those new in the last five years. MSD is expanding its education program with a 1-hour training class online but would like to be back in person depending upon Covid restrictions. MSD is planning to expand the 1-hour training to a 4-hour training, specific to the employer roles they have, and it will be much more tailored to our employer customers.

Mr. Guillen questions how much of the Net Promoter Score (NPS) reduction going from 46-41 is based on Service Purchases rather than other items as these can be very costly and members may be disgruntled about how much these services cost.

Ms. Daigneault discussed that part of what staff will be doing with the NPS is bifurcating the results and isolating the promoters from the detractors from the neutrals. We see that the first-year group during this pandemic now make up 11% of the total population in this group – they are the highest number of our detractors and that has to do with not understanding the plan or why it's mandatory. This is not necessarily about what the ASRS offers but not understanding the law. Ms. Daigneault continued by stating, the ASRS is an agile group that responds quickly and MSD has already started to make changes as soon as these scores starting coming in. Staff looked at Employer Secure Messaging and implemented quality control so that they could see what was happening. MSD started adding new training to its customer representatives who work directly with employers. While some decreases in our results are being seen, they are not where we would like them to be and the ASRS is actively pursuing different avenues to increase these numbers.

Ms. Orozco stated that the ASRS is implementing the survey tools and functionality for employers that allow the ASRS to put targeted groups aside to send just that group targeted information. There are many things in the pipeline that, over time, will help us take more appropriate actions.

Mr. Guillen thanked everyone for their information.

Ms. Daigneault talked about the next steps.

- Using survey instruments to target information.
- Expanding education.
- On-going lean engagements.

Mr. Guarino stated that there will be more information in our next meeting when the Strategic Communications Team will discuss their plans. As a sneak preview, Strategic Communications has expanded its service and the next iteration is going to show more discreet targeted messaging. We will come back to this subject in a couple of months.

Mr. Guillen opened up to questions from the Committee.

Ms. Sarah Webber, Trustee, commented that this is a very helpful snapshot. Ms. Webber asked how this compared to previous years.

Ms. Daigneault responded with the following:

- The net promoter score of 46 has come down to 41.
- While there is cooling in last year's results, we help attract and retain current employees.
- Dropping slightly but not of concern was with respect to the question: are we sending communications relevant to your needs.
- Areas seeing an increase in satisfaction were: people were happy that ASRS was here and responding and were available to talk to them during the pandemic.

Mr. Guillen opened up to questions from the Committee; there were none. Mr. Guillen thanked the staff for the presentation.

4. Presentation, Discussion, and Appropriate Action Regarding the Service Purchase Lean Engagement

Mr. Guillen stated the Service Purchase Lean Engagement will be moved to the April 13, 2022, OALC meeting.

5. Presentation, Discussion, and Appropriate Action Regarding the Remote Online Counseling (ROC) Lean Engagement

Ms. Jenna Golab, Program Manager, Operations Analysis and Appeals, MSD, stated that this presentation concerns a Kaizen lean analysis of the Remote Online Counseling (ROC) format, which is how the ASRS presents virtual meetings for its members in a one-on-one medium. Ms. Golab explained the ROC has not had a high attendance rate over the last few years but has had a high RSVP rate as these are booked three months in advance. Over the previous six months, we have had a 28% 'no-show' rate, which is higher than desired and higher than in-person or telephonic appointments. The satisfaction for ROC is lower than in-person or telephonic meetings. Ms. Golab explained we shouldn't have a low satisfaction score as it is the same staff covering the same material in the ROC sessions and the in-person or telephonic meetings. Ms. Golab highlighted the following from the lean analysis with the Committee:

- Areas in Need of Improvement
 - The medium used, Adobe, is great for group meetings but isn't suitable for one-on-one scenarios
 - No show rates were because they were scheduled too far in advance
 - Members were not receiving their emails – junk folders
 - No access to portals for virtual meetings
- Actions Taken:
 - Switched to Google Meets instead of Adobe for virtual meetings. This was more secure also. Virtual meetings are using Google Meets with our staff on camera.
 - We have a new calendar system to set up meetings.
 - We implemented this in one month.
- Future Plans:

- Include a review in six months to examine data points for improvements. Anticipate a decreased 'no-show' rate and an increase in satisfaction.
- MSD has a regular timeline of lean engagements that they perform. One related to the Employer Survey and the Employer Secure Messaging will be forthcoming as we did see a drop in satisfaction.

Mr. Guillen stated that he agrees with the switch to Google Meets and is interested in seeing the future results. Mr. Guillen added that he wondered if some of the satisfaction results weren't contributed to the potential mental backlash to all video meetings because it could have been handled through emails or telephone calls, and this is a state of the workforce, not just ASRS.

Ms. Webber congratulated the presenters on their use of problem-solving regarding this important issue and wanted to confirm that staff will come back with additional data.

Ms. Golab stated that this is a continuous review, and staff plan to report back to the Committee in approximately six months.

Mr. Scott stated that we are proud of our lean engagements. Mr. Scott is a black belt in Lean Six Sigma and Ms. Golab is a green belt. In the next six months, staff will be looking for:

- Efficiency gains being seen and redirecting those into MSD.
- Monetary savings from reduced Adobe licensing
- Improved customer experience

Mr. Guillen questioned how we direct these Lean Engagements - are they internal, external, state-sponsored?

Mr. Guarino explains that this is internally driven. Mr. Paul Matson, Director, states that Mr. Guarino was the driver in this continuous improvement with our PRIDE Initiatives and directing of Mr. Scott. Mr. Guarino noted that the ASRS is trying to develop its own program internally and encourage our employees to pursue the LEAN method. Ms. Daigneault is also a green belt and we are trying to develop the skill in-house. We like to see these Lean reviews in different divisions/units and not centralized. Mr. Guarino shared that he liked this study because it doesn't address a major problem but the concept of a continuous improvement mindset. Another engagement coming up in a few months is our health insurance programs and processes.

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

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

Mr. Harold Mackey, Chief Internal Auditor, stated that the IAD focuses on assurance and advisory and IAD engages with the agency divisions more proactively now than in the past. Regarding Investment Management Division (IMD), the IAD monitors the Combined Asset Class Meetings and discussions about the ASRS investment portfolio. Regarding Financial Services Division (FSD), the IAD has a standing weekly meeting to highlight concerns and keep track of actions. Through weekly Senior Management Team (SMT) meetings, the IAD gets a clear understanding of the Member Services Division (MSD) and Technology Services Division (TSD). Also with TSD, the IAD participates in technical reviews regarding the implementation of applications for the organization. Regarding Legislative activities, the IAD has a team member ready for any legislative implementation or other activities.

IAD's administrative activities started at the beginning of the fiscal year by implementing our automated audit software. We have completed training and have implemented the application software. Back end reporting of this implementation will be presented in future meetings.

This summer, Mr. Mackey noted that the fraud monitoring hotline showed much activity but did not involve actual fraud issues. Inadvertent attempts to access the wrong accounts are to blame for this. Another example of increased calls to the Fraud Hotline occurred when informational correspondence went out from our system. IAD worked with Communications and MSD, to eliminate future spikes in fraud calls due to communications to members.

Mr. Mackey reported that the IAD implemented weekly staff meetings. In IAD, continuing education and development is emphasized with our staff; for example, Nancy Solheim is working towards her certification and should be completed in a year.

Mr. Mackey identified the IAD assurance level items currently in progress. The Accuracy of Data report should be released in the near future. IAD has a continuous audit of Foreign Annuitants because of difficulties communicating with those living out of the country. IAD has another set of letters and emails getting out this week to the foreign annuitants, and we are looking at alternative methods to see if these foreign members are still with us. The IAD also has a death reporting audit coming soon.

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

7. Presentation, Discussion, and Appropriate Action Regarding Review of Recently Conducted Audits

- **Cloud-Based Apps Audit – Internal Processes**

Mr. Mackey introduced Mr. Andrew Burch, ASRS Internal Auditor, who will review the recently conducted audit.

Mr. Burch stated that there is a state mandate that all applications be cloud-based. Due to this mandate, a decision was made to audit what the ASRS has already implemented and if controls are established and effective to determine if the existing controls are adequate. Mr. Burch noted that there were no standard operating procedures provided for the implementation of the applications process, but there are standards and protocols documented during any implementation project. We will see more when the complete migration happens this year.

IAD's opinion is that this has a high-risk impact in the agency, our members, and our reputation; however, there were no findings. The IAD is issuing an unqualified opinion that TSD is compliant in all areas of audit testing.

Mr. Burch reviewed the list of current applications in the cloud that have been implemented. The list currently consists of 13 applications until the complete migration takes place. Mr. Burch was very satisfied with the audit and cooperation with the TSD department.

Mr. Guillen asked if there were any questions or comments.

Mr. Guillen asked, what is the plan for in-house applications and how they are treated? Mr. Burch replied that no in-house applications were created for this audit. Everything will be cloud-based according to State mandates. Mr. Burch will be attending weekly meetings regarding the migration project.

Mr. David King, Assistant Director, Chief Information Officer, TSD, thanked Mr. Burch for his presentation. Mr. King confirmed that ASRS has not yet put any of its own applications in the cloud; this will happen in 2022. Authorization of use of cloud-based applications has been granted for various divisions of third-party applications already in the cloud. We have a good program in place for security review. We will be putting our own applications in the cloud over the course of this year. Mr. King added it is a significant effort to move an entire network to the cloud, and we want to do this the right way. We have a partner and are consulting with other agencies to see that our plan is being done the right way.

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

8. Call to the Public

No members of the public requested to speak.

9. Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program

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 3:44 p.m.

The Committee reconvened to Public Session at 4:10 p.m.

10. Requests for Future Agenda Items

None were requested.

11. The next regular public OALC meeting is tentatively scheduled for Wednesday, April 13, 2022 at 2:30 p.m.

Mr. Rene Guillen noted the next OALC meeting is scheduled for Wednesday, April 13, 2022, at 2:30 p.m.

12. Adjournment of the OALC

Mr. Guillen adjourned the meeting at 4:11 p.m.

Respectfully Submitted,

Bridget French
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM