

How ASRS employees deliver service with

PRIDE

PROFESSIONALISM

"We promote, strive for and expect individuals, teams, and divisions to possess professional qualities and skills to lead the organization"

- 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

RESULTS

"We treasure the achievements of individuals, teams, divisions and the agency that energize the organization"

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

IMPROVEMENT

"We appreciate individuals, teams or divisions who drive the agency forward with new, innovative ideas and solutions"

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

DIVERSITY

"We recognize that utilizing different talents, strengths and points of view, strengthens the agency and helps propel outcomes greater than the sum of individual contributor"

- 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

"We celebrate individuals, teams and divisions who exceed expectations and deliver service with a PRIDE that permeates the organization"

- 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



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

AGENDA

NOTICE OF 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

January 8, 2020
2:30 p.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 Wednesday, January 8, 2020, beginning at 2:30 p.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.

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 October 19, 2019, Public Meeting and Executive Session of the OALC (*estimated time: 1 minute*) Mr. Clark Partridge

3. Presentation, Discussion, and Appropriate Action Regarding an Update on the ASRS Fiscal Year 2020 Administrative Spending Plan Mr. Paul Matson
Director
..... Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
..... Ms. Martha Rozen
Chief of Administrative Services
..... Mr. Chris Gustafson
Budget and Procurement Program Manager

4. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Quarterly Update (*estimated time: 10 minutes*) Mr. Paul Matson
..... Mr. Anthony Guarino
..... Mr. Harold Mackey
Chief Internal Auditor

5. Review of Recently Conducted Audits Mr. Paul Matson
..... Mr. Anthony Guarino
..... Mr. Harold Mackey
 - Health Insurance Benefits Plans & Carriers – Internal Process

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Technology Services Division (TSD) Status and Update on the Plan and Activities (*estimated time: 20 minutes*) Mr. Paul Matson
..... Mr. Anthony Guarino
..... Mr. Dave King
Assistant Director, Chief Information Officer, TSD

7. 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.

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 Information Security Program (*estimated time: 60 minutes*)..... Mr. Paul Matson
..... Mr. Anthony Guarino
..... Mr. Jeff Hickman
Information Security Officer

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

10. The next regular public OALC meeting is scheduled for Wednesday, April 8, 2020, at 2:30 p.m., at 3300 N. Central Avenue, in the 14th Floor Conference room, Phoenix, Arizona.

11. 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 January 2, 2020

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



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

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

**Wednesday, October 9, 2019
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 2:33 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

Mr. Clark Partridge, Chair, welcomed the attendees.

Present: Mr. Clark Partridge, Chair
Mr. Rene Guillen (joined the meeting via teleconference at 2:34 p.m.)

Excused: Mr. Tom Manos, Vice-chair

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

2. Approval of the Minutes of the July 10, 2019 Public Meeting of the OALC

Motion: Mr. Rene Guillen moved to approve the Minutes of the July 10, 2019, Public Meeting of the OALC. Mr. Clark Partridge seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

3. Presentation, Discussion, and Appropriate Action Regarding the 2020 ASRS Legislative Initiatives

Mr. Anthony Guarino turned the presentation over to Ms. Jessica Thomas, Government Relations Officer and Rules Writer. Ms. Thomas advised the Committee, based on staff discussions; there are

three recommended statute amendments to be placed on the 2020 ASRS Legislative Agenda. Ms. Thomas reviewed the following recommendations in detail:

- Amend A.R.S. §§ 38-782(A) and 38-783(F) to clarify how the ASRS may implement a self-insurance program by utilizing the HBS fund for reserves as needed.
- Amend A.R.S. § 38-738 to indicate that the Employer must request a credit and return the employee portion to the employee. Also, amend the statute to indicate that a CNW cannot be completed after death of the member.
- Amend A.R.S. § 38-775 to indicate that the ASRS will treat non-retired members who die after the federally mandated Required Minimum Distribution (RMD) date as if they had retired with a straight life annuity on their RMD date and will distribute survivor benefits accordingly.

Motion: Mr. Rene Guillen moved to accept and forward the recommended 2020 ASRS legislative initiatives to the full Board for approval. Mr. Clark Partridge seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

4. Presentation, Discussion, and Appropriate Action Regarding Rulemaking Initiative for R2-8-122, Remittance of Contributions

Ms. Jessica Thomas presented rulemaking language pertaining to Arizona Administrative Code (A.A.C.) R2-8-122, Remittance of Contributions. Ms. Thomas explained that two new subsections were being added to this rule as follows:

- Added language clarifying that contributions must be remitted based on the rate that was in effect on the employer's pay period end date.
- Added language regarding the certification that each employer signs when submitting the file format indicating what contributions are being remitted. This is to certify that the employee that is on the payroll document is in fact their employee and has met the requirement of active membership and all the contributions being remitted are eligible for compensation under statute.

Ms. Thomas responded to questions from the Committee.

Motion: Mr. Rene Guillen moved to approve the draft rulemaking language to be filed with the Secretary of State. Mr. Clark Partridge seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

5. Presentation, Discussion, and Appropriate Action Regarding an Update on Rulemaking Initiatives

Ms. Jessica Thomas reviewed the outstanding rulemaking activities from the 2018 and 2019 Regulatory Agenda with the Committee as follows:

- 2018 Regulatory Agenda
 - 2 A.A.C. 8, Article 5, and 2 A.A.C. 8, Article 7, has been completed and became effective March 18, 2019.
 - 2 A.A.C. 8, Article 1, R2-8-126, the filing has been postponed. Although staff has completed the draft language, the filing has been postponed pending completion of two additional rulemakings on the 2019 Regulatory Agenda that are closely related to this rule. This is to eliminate multiple submissions of the same rule. All recommended amendments will be contained in one submission.
- 2019 Regulatory Agenda
 - 2 A.A.C. 8, Article 1, R2-8-122; 2 A.A.C. 8, Article 1, R2-8-115; and 2 A.A.C. 8, Article 1, R2-8-120 are expected to be completed and filed by the end of the calendar year.

Upon responding to questions from the Committee, Ms. Thomas proceeded to review the proposed 2020 Regulatory Agenda of which will require a full Board approval in November. Five rulemakings have been identified, most of which correspond with legislation passed this year as follows:

- 2 A.A.C. 8, Article 9 (Compensation) – may consider resurrecting some of the rules that were expired in 2018 to now correspond with the new definition of compensation
- 2 A.A.C. 8, Article 1, R2-8-121 (new rule) – Non-participating Employer Invoices
- 2 A.A.C. 8, Article 1, R2-8-116 – Alternate Rate Contribution Rate Credits
- 2 A.A.C. 8, Article 3, (Long Term Disability) – codify in rule how the ASRS is applying the new statutory definition going forward
- 2 A.A.C. 8, Article 1, R2-8-119 (new rule) – Liability invoices under A.R.S. § 38-748

Ms. Thomas also advised the Committee that agencies are required to complete a five year rule report and the ASRS is scheduled for this review during 2020 of the following Articles: 2 A.A.C. 8, Articles 1, 2, 4, and 5.

Motion: Mr. Rene Guillen moved to accept and forward the recommended 2020 ASRS Regulatory Agenda to the full Board for approval. Mr. Clark Partridge seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

6. Presentation, Discussion, and Appropriate Action Regarding the ASRS Internal Audit Division Strategy and Fiscal Years 2020 and 2021 Biennial Audit Plan

Mr. Anthony Guarino introduced the topic indicating the Internal Audit Division (IAD) has been working on reconstituting the internal audit program for several months to better align with some of the agency's strategic interests such as risk management and operational effectiveness. Mr. Guarino turned the presentation over to Mr. Harold Mackey, Chief Internal Auditor.

Mr. Mackey referenced the two documents included in the meeting materials stating that the Strategy Document is intended for review and consumption and would not be discussed in great detail. The Biennial Audit Plan would be reviewed in detail prior to forwarding to the full Board for approval in November.

Mr. Mackey provided highlights of the following contained in the Strategy Document:

- Changes in collaboration with the ASRS operations
- Alignment of the IAD with ASRS strategic priorities
- Setting foundations to move forward as an organization
- Focus on the agency's risks

Mr. Mackey responded to questions from the Committee prior to moving on to the review of the Biennial Audit Plan. Mr. Mackey summarized the approach IAD took in developing the Biennial Audit Plan and indicated the IAD will be performing more follow-up monitoring to ensure noted deficiencies are corrected. Mr. Mackey concluded the presentation by indicating once the plan is approved; the IAD will work with the Strategic Planning and Analysis Team to assign the appropriate risk tolerances to be included in the strategic priorities.

Motion: Mr. Rene Guillen moved to accept the proposed Biennial Audit Plan and forward it to the full Board for approval. Mr. Clark Partridge seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

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

Mr. Harold Mackey reviewed the quarterly audit report with the Committee and provided the status of projects IAD is currently working on. Mr. Mackey noted the items in the "Follow-up Monitoring" were primarily the high risks identified in the CliftonLarsenAllen assessment completed a couple of years ago. Moving forward, the IAD will be confirming the assessment findings have been implemented and that there is sufficient evidence for future assessments. Mr. Mackey briefly touched base on the additional items on the "Follow-up Monitoring" slides in addition to reviewing the "Legislation Implementation", "Fraud Monitoring" and "Budget/Hours Allocation" slides. With regard to the "Budget/Hour Allocation" slide, Mr. Partridge suggested adding a targeted completion date.

Mr. Mackey responded to questions from the Committee.

8. Presentation, Discussion, and Appropriate Action Regarding the ASRS Strategic Communications Initiatives

Mr. Anthony Guarino introduced the topic indicating the agency has been freshening up the Communications Program and introduced Ms. Pam Foust, Strategic Communications Manager who will be sharing the results of the recent brand review.

Ms. Foust shared that in late 2017 the Strategic Communications team discussed with executive management the opportunity to reassess the agency's brand. Ms. Foust stated that it has been a number of years since the brand was reviewed and the communications climate has changed since that time. Ms. Foust shared that the ASRS does well with communicating with its members but it's on a larger scale and the ASRS needs to move toward more targeted communications. The last brand review in 2009 is when the PRIDE Values were established; however, the PRIDE Values have become an internal brand rather than an external brand. We are currently using the ASRS seal which is outdated and indistinguishable from the State seal and does not make the ASRS visually memorable. Ms. Foust added that there have been some inconsistencies in communication as this responsibility has been shared with other divisions/units while the Communications team was expanding. Now was the time to take a deeper look into our capabilities of delivering communications effectively as well as update the ASRS visuals.

In 2018 a team was created to take on the ten-month long brand project consisting of: Ms. Melanie Alexander, Director's Officer; Ms. Jana George, Human Resources; Mr. Jeremy Pond, Financial Services; Ms. Wendy Tobin, Employer Relations; Mr. Ben Robinson, Member Education (now Strategic Communications); Mr. Aaron Chandler, Training and Development (now Strategic Communications); Mr. Nate Brengle, Strategic Communications; and Ms. Pam Foust, Strategic Communications. The Brand Team also worked with an outside consultant, Accenture, to assist with focus groups, survey tools, assessing our processes and capabilities, etc.

The visual brand is the outcome of all of the data received from our surveys and focus groups. The most important ASRS traits to our members, in order are:

- Trusted (well-managed, honest, efficient, secure, knowledgeable, intelligent)
- Caring (human, responsive, engaging, educational)
- Stable (sustainable, responsible, low cost, lean)
- Valuable (value-added, beneficial, personal value)
- Forward-Thinking (progressive, growth-minded)

The traits were then used to create the visual mark and brand positioning statement for the ASRS. Ms. Foust stated this past summer there was a soft rollout of the new recommended brand logo and positioning statement with a wider roll-out planned this year which will be included in ASRS member videos and communication. Ms. Foust introduced Mr. Nate Brengle, Creative Director, and the designer of the new ASRS logo, to share the meaning of the visuals. Mr. Brengle stated that similar to the brand positioning statement the goal for the logo was to create something that will stand the test of time that can be used for many years but also represent our members, our core values, and speaks to who we are and what we do. The logo represents the Arizona sun, created from people representing the growth of our members.

Next, based on the feedback and survey results, is targeted communications. During this project member personas were identified and the survey results assisted in gathering information pertaining to their messaging needs. The five personas identified are as follows:

1. New Member – been a member less than five years, digitally savvy, knows very little about the ASRS
2. Member Nearing Retirement – retiring within 5 years, on social media but not ASRS social media, eager to retire but overwhelmed about where to start
3. New Retiree – wonders “what’s next”, worried they haven’t saved or planned enough, the high cost of insurance and looking for ongoing retirement education
4. Long-Term Retiree – retired 10+ years, worries about the security of their pension, high cost of health insurance, what happens when they die and they prefer traditional communication

5. Inactive Member – we have no current location (address/email address) on many of these and those we have contacted don't realize they have funds on account or what their options are for disbursement

Ms. Foust further stated we not only need to gear communications appropriately but also by the method in which these personas indicate they prefer in order to reach a larger audience. The ASRS will be exploring methods such as text messaging to steer members to the ASRS social media. As needed, additional personas may be developed.

Ms. Foust reviewed the planned Communication Initiatives for Fiscal Years 2020-2022 as follows:

1. Visual Brand Implementation – across all communication channels
2. Enhance Maturity – implement clear, consistent processes across all communication channels
3. Persona Implementation – begin transition to targeted communications
4. Member Email Addresses – improve use/handling of email addresses
5. Social Media – expand use of social media, used widely by each of our member groups
6. Text Messaging – explore use of real-time notifications via text messaging
7. Directors Messaging – implement quarterly video series to communicate important messages

Ms. Foust concluded by briefly reviewing possible future initiatives.

9. Presentation, Discussion, and Appropriate Action Regarding the 2020 OALC Meeting Schedule

Mr. Clark Partridge reviewed the proposed 2020 meeting schedule as follows:

- January 8, 2020 @ 2:30 p.m.
- April 8, 2020 @ 2:30 p.m.
- July 8, 2020 @ 2:30 p.m.
- October 14, 2020 @ 2:30 p.m.

Motion: Mr. Rene Guillen moved to approve the proposed 2020 OALC meeting schedule. Mr. Clark Partridge seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

10. 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. Mr. Clark Partridge seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

The Committee convened to Executive Session at 3:51 p.m.

The Committee reconvened to Public Session at 5:18 p.m.

11. Requests for Future Agenda Items

None were requested.

12. Call to the Public

No members of the public requested to speak.

13. The next regular public OALC meeting is scheduled for Wednesday, January 8, 2020, at 2:30 p.m., at 3300 N. Central Avenue, in the 14th Floor Conference room, Phoenix, Arizona.

Mr. Clark Partridge noted the next OALC meeting is scheduled for Wednesday, January 8, 2020 at 2:30 p.m.

14. Adjournment of the OALC

Motion: Mr. Rene Guillen moved to adjourn the meeting at 5:19 p.m. Mr. Clark Partridge seconded the motion.

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

Mr. Clark Partridge – approved
Mr. Tom Manos – excused
Mr. Rene Guillen – approved

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM

Confidential Materials

Note: Executive
Session Minutes
have been provided
to the Committee and
not included in this
book

Agenda Item #3



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MEMORANDUM

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

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Ms. Martha Rozen, Chief of Administrative Services
Mr. Chris Gustafson, Budget and Procurement Program Manager

DATE: December 24, 2019

RE: **Agenda Item #3:** Presentation, Discussion, and Appropriate Action Regarding an Update on the ASRS Fiscal Year (FY) 2020 Administrative Spending Plan

Purpose

To provide an update on the status of the FY 2020 ASRS administrative spending plan and to highlight changes due to further cost alignment and necessary shifts in identified needs and priorities.

Recommendation

Information item only, no action required.

Background

In July 2019, ASRS staff presented to the ASRS Board of Trustees the appropriated and continuously appropriated budgets and the ASRS administrative spending plan for FY 2020. As presented and approved at that time, the ASRS focus remains on the Data, Transactional and Network Security Program and Informational Technology Applications Development and Infrastructure Architecture Enhancements.

Data, Transactional and Network Security Program

The ASRS continues to take a measured approach to align the funding for necessary expenses associated with data, transactional, and network security. The cost of the cyber insurance policy and that of professional security consulting services have been identified as program costs that should be shifted to continuous appropriations funding. We believe these two shifts further the appropriate alignment of costs with the funding source identified previously for the security program.

Informational Technology (IT) Applications Development and Infrastructure Architecture Enhancements

The OALC and the ASRS Board of Trustees have supported previously the following IT projects in FY 2020, designed to support and enhance business and service requirements, which are currently in progress:

- Technology Services Improvements project – to achieve operational efficiency as well as to position the agency for a successful migration to the cloud by implementing continuous integration continuous deployment (CI/CD) or DevOps methodology, setting up the required infrastructure and environment.
- Automation Upgrades and Oracle Modernization project – to achieve a standards-based set of technologies by re-engineering business processes to increase productivity, reduce costs, mitigate risks and improve member service.
- Benefits Disbursements project – to reduce the annual costs, over time, for all categories of disbursements.

- Information Protection and Security project – to increase the security of Personally Identifiable Information (PII) and create a more robust data logging system and stronger monitoring tools for internal applications. This will reduce access and exposure to PII during the course of performing business functions, as well as improve the ASRS’s privacy and security posture.

The ASRS management team has authorized the following additional projects in FY 2020 to address identified risks and limitations:

- Technology Services Technical Debt Sprints – to address and make required changes to code on completed projects that were not incorporated or coordinated before release into production.
- Manual Disbursements project – to create a systematic preventative review workflow for the manual change process of payment amounts and payment methods. External auditors identified this review step during a recent audit to mitigate the risk of fraudulent information.
- Benefits Self-Insurance project – to determine requirements to change to a self-insured model for health, pharmacy, and dental benefits for retirees and other eligible participants. This effort includes legal and professional expert consulting services to assist with the assessment and evaluation.

Conclusion

The changes to the FY 2020 administrative spending plan allow the ASRS to expedite required projects while maintaining an approach consistent with the previously approved FY 2020 ASRS administrative spending plan and keeping the agency on target to achieve or stay within the risk tolerance of established key performance indicators in the ASRS Strategic Plan.

FY 2020 ASRS Budget Report Administrative Expenses

(Expenditures at December 2019)

	Base Administrative Budget			Obj by 6/30/2020: -3.00%	Administrative Projects Budget							Obj YOY: -1.50%
	Base Operating Appropriations	Long Term Disability Appropriations	Pension Payroll, Rent, and Actuarial Fees Continuous Appropriations	Current: -3.17%	Technology Services Improvements Projected Unspent Base Appropriations	Technology Technical Debt Sprints Projected Unspent Base Appropriations	Automation Upgrades and Oracle Modernization Special Line Item Appropriations	Benefits Disbursement Continuous Appropriations	Information Protection Security Continuous Appropriations	Manual Disbursements Continuous Appropriations	Benefits Self-Insurance Continuous Appropriations	Administrative Budget Total
Personal Services (PS)												
Salaries and wages	4,301,100		539,800	4,840,900			327,300	65,500	6,400	-		5,240,100
Variable Compensation Strategies Plan	65,500		-	65,500								65,500
Investment Incentive Compensation Plan	539,800		-	539,800								539,800
Total PS	4,906,400	-	539,800	5,446,200	-	-	327,300	65,500	6,400	-	-	5,845,400
Employee Related Expenses (ERE)												
Employer costs - benefits, taxes, charges	1,880,400		180,200	2,060,600			101,100	20,400	2,100	-		2,184,200
Total ERE	1,880,400	-	180,200	2,060,600	-	-	101,100	20,400	2,100	-	-	2,184,200
Professional and Outside Services (P&O)												
LTD Program administration		442,900		442,900								442,900
Pension payroll disbursement processing			6,900	6,900								6,900
IT Software Development	438,500		52,700	491,200	16,900	14,400	171,400	77,800	-	-		771,700
Actuarial services			36,800	36,800								36,800
Benefits consulting services			48,800	48,800								48,800
IT security professional services			61,000	61,000								61,000
Legal fees	194,200			194,200							31,400	225,600
Other outside services	10,900			10,900								10,900
Total P&O	643,600	442,900	206,200	1,292,700	16,900	14,400	171,400	77,800	-	-	31,400	1,604,600
Travel												
In-state	9,100			9,100								9,100
Out-of-state	13,800			13,800								13,800
Total Travel	22,900	-	-	22,900	-	-	-	-	-	-	-	22,900
Other Operating Expenditures												
Office rent			627,200	627,200								627,200
Software licenses and support	495,900			495,900								495,900
Telecommunications	75,400			75,400								75,400
Risk management insurance premiums	149,300			149,300								149,300
Newsletter printing and mailing	141,600			141,600								141,600
Dues, subscriptions, publications	36,800		43,600	80,400	42,700							123,100
Postage and delivery	3,300		-	3,300								3,300
Education, training and conferences	15,100			15,100								15,100
Equipment repair and maintenance	12,000			12,000								12,000
Other operating supplies and external printing	39,000		100	39,100								39,100
Total Other Operating Expenditures	968,400	-	670,900	1,639,300	42,700	-	-	-	-	-	-	1,682,000
Equipment												
Furniture purchases/replacement	-			-								-
Network, server, PC and devices	2,500			2,500								2,500
Total Equipment	2,500	-	-	2,500	-	-	-	-	-	-	-	2,500
TOTAL	\$ 8,424,200	\$ 442,900	\$ 1,597,100	\$ 10,464,200	\$ 59,600	\$ 14,400	\$ 599,800	\$ 163,700	\$ 8,500	\$ -	\$ 31,400	\$ 11,341,600
APPROPRIATED / BUDGETED AMOUNTS	\$ 22,394,000	\$ 1,800,000	\$ 4,575,800	\$ 28,769,800	\$ -	\$ -	\$ 1,254,700	\$ 164,600	\$ 388,600	\$ 392,100	\$ 409,500	\$ 31,379,300
FY 2020 PROJECTED UNSPENT	\$ 850,800	\$ 300,000	\$ -	\$ 1,150,800	\$ (246,000)	\$ (43,200)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 861,600
% EXPENDED YTD	37.6%	24.6%	34.9%	36.4%			47.8%	99.5%	2.2%	0.0%	7.7%	36.1%
% OF FISCAL YEAR ELAPSED	41.7%											

Agenda Item #4



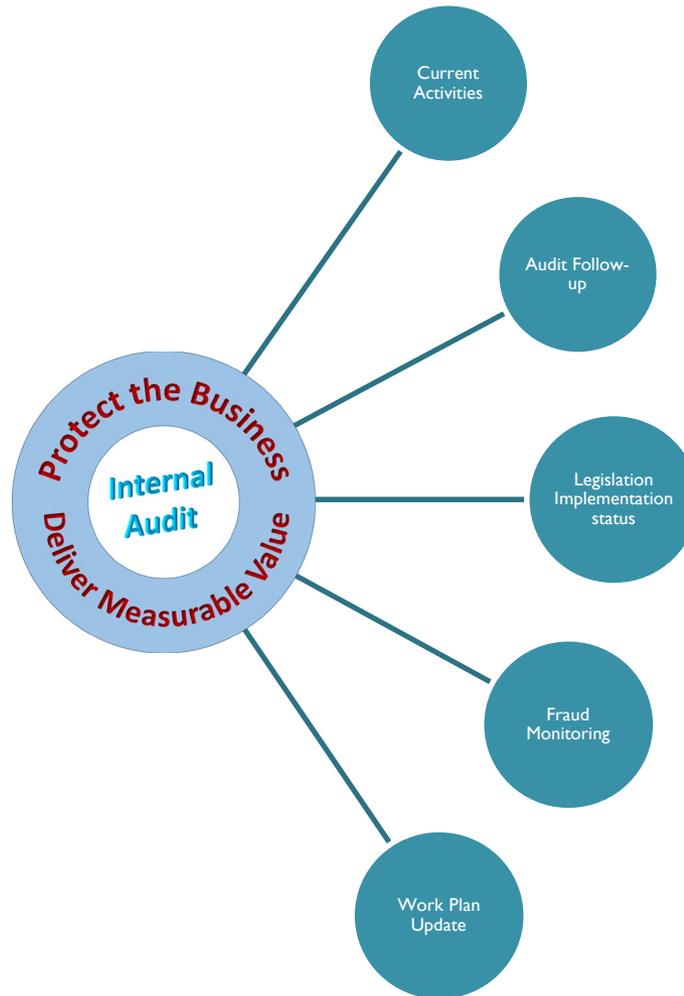
Quarterly Audit Report

FY 2020/Q2

Internal Audit Division
January 2020



Internal Audit



Current Activities - Status

Title	Status
Update IA procedures to align with enhanced audit functions	Working
Completed ASRS IAD Strategy document	Completed
Completed ASRS IAD Biennial Plan FY 2020 & 2021	Completed
Training/Skills realignment for IA staff	On-going
Re-engage the Risk Management Committee	Completed
Report on follow-up audits	On-going
Report on implementation of newly enacted legislation	On-going
Report on potential fraudulent other investigatory activities	On-going
Complete existing audits per audit plan	Working

Follow-up - Monitoring

Audit Project	Finding2	Due Date	Status	Comment
Cash Controls CLA FU 1	Controls are not followed to ensure that system and application vulnerabilities are tracked and remediated on a timely basis.	12/31/2018	Resolved	
Cash Controls CLA FU 2	A limited number of employees in the Benefits Accounting Team have access to manually edit significant fields in PERIS. There are no system controls to prevent changes from being made by a benefits accounting supervisor without review.	FU after 10/11/2019	Partially Resolved	Short-term: compensating controls are in place.
Cash Controls CLA FU 3	A limited number of employees in the Benefits Accounting Team have access to manually edit significant fields in PERIS. There are no system controls to prevent changes from being made by a benefits accounting supervisor without review.	FU after 10/11/2019		Long-term: A service request has been approved and prioritized. No current date established for completion.
Cash Controls CLA FU 4	All members of the Disbursements Team have access to manually edit significant fields in POL. There are no system controls to prevent changes from being made without review.	FU after 10/11/2019	Partially Resolved	Short-term: compensating controls are in place.
Cash Controls CLA FU 5	All members of the Disbursements Team have access to manually edit significant fields in POL. There are no system controls to prevent changes from being made without review.	FU after 10/11/2019		Long-term: A service request has been approved and prioritized. No current date established for completion.
Cash Controls CLA FU 6	PERIS does not require multiple user approvals of alternate payee workflows	FU after 10/11/2019	Partially Resolved	Short-term: compensating controls are in place.
Cash Controls CLA FU 7	PERIS does not require multiple user approvals of alternate payee workflows	FU after 10/11/2019		Long-term: A service request has been approved and prioritized. No current date established for completion.

Follow-up - Monitoring

Audit Project	Finding	Due Date	Status	Comment
Vendor Efficacy FU 1	A vendor, CDW-G, does not have the expertise to answer all of ASRS' needs, and does not always respond promptly to communications	5/2/2019	Resolved	Statement of dissatisfaction has been filed. 05/02/2019
Vendor Efficacy FU 2	The ASRS should establish additional policies regarding vendors.	7/1/2019	Resolved	
Vendor Efficacy FU 3	ASRS is under-utilizing its available training for Skillsoft classes.	11/1/2019		Being reviewed by HR and Training as part of the total training offered by ASRS.
GASB 68 Testing 2018 FU CLA	CLA requests to employers needed to be updated.	7/1/2018	Resolved	
GASB 68 Testing 2018 FU FSD	Several members with missing enrollments were identified. Several misidentified PIDs were also noted.	3/1/2019	Completed	
Espiritu Schools FU 1	Espiritu Schools reported 62 employees of non-ASRS employers as eligible members.	6/30/2021		Discussions are underway with legal counsels of the ASRS and Espiritu on a possible positive resolution.
Espiritu Schools FU 2	Espiritu Schools had not properly enrolled all its members	6/30/2019		On 08/09/2019, the employer was notified that the they have not enrolled any of the members that were identified.

Legislation Implementation

Legislation	Description	Effective Date	Due Date	Status	Comment
Laws 2019, ch. 75	Ensures members and employers may use a current payroll adjustment to pay for contributions not withheld.	8/27/2019	8/27/2019	Completed	Fully Implemented
Laws 2019, ch. 75	Prohibits an employer from purchasing overlapping prior service credit for a member upon joining the ASRS.	8/27/2019	8/27/2019	Pending	Pending legal review, then a rules review.
Laws 2019, ch. 158	Requires an employer to pay an unfunded liability amount resulting from the employer remitting ineligible contributions.	8/27/2019	8/27/2019	Pending	SOP updated; scheduled for rules during FY 2020.
Laws 2019, ch. 37	Prohibits the ASRS from paying interest on any monies owed unless specifically authorized by Arizona Revised Statutes Title 38, Chapter 5, Articles 2 and 2.1.	8/27/2019	8/27/2019	Completed	Fully Implemented
Laws 2019, ch. 181	Creates a new definition of "compensation" for new members as of January 1, 2020.	8/27/2019	1/1/2020	Pending	Schedule for rules during FY 2020; pending tax consultant review.
Laws 2019, ch. 192	Removes redundant definitions, changes the definition of "disability", and limits the amount of available disability benefits to no more than 100% of the member's pre-disability compensation.	8/27/2019	7/2020	Pending	Scheduled for FY 2020 rules.
Laws 2019, ch. 302	An employer is not required to pay an Alternate Contribution Rate for a retired member if the employer is remitting contributions on behalf of an active member serving in that same position.	8/27/2019	7/2020	Pending	Pending rules review and scheduled for FY 2020 rules.

Budget/Hours Allocation

Title of Activity	Budgeted Hours	Actual Hours Worked	ESTIMATED		Status	Est. End Date	Comments
			Hours Remaining	% Hours Utilized ¹			
Audit/Audit Related							
Cash Controls Audit: Process-level	280	2	278	1%	On-Hold	3Q2020	Review CC updates
Cash Controls Audit: System-level	120		120	0%	Not-Started	4Q2020	
In-House Disbursements – Check printing / Other	160		160	0%	Not-Started	4Q2020	
Security: Data/Information [controls]	200		200	0%	Not-Started	4Q2020	
Accuracy of Data	200		200	0%	Not-Started	4Q2020	
Access Management	120		120	0%	Not-Started	4Q2020	
Network Penetration Tests	40		40	0%	Not-Started	4Q2020	External
Security Risk Assessment Review	40		40	0%	Not-Started	4Q2020	External
Complaints Handling	120	80	40	67%	In-progress	3Q2020	
Risk Management [program assessment]	200		200	0%	Not-Started	4Q2020	
ISM tool	200	25	175	13%	In-progress	3Q2020	
Shift to cloud	240		240	0%	Not-Started	3Q2020	
GASB 68 Testing FY2020	320		320	0%	Not-Started	1Q2021	
Employer Relations: Assessment	200		200	0%	Not-Started	4Q2020	
Foreign annuitants	200		200	0%	Not-Started	4Q2020	
Cash Controls Follow-up	80	51	29	64%	In-progress	3Q2020	
GASB 68 Testing FY 2019	400	308	92	77%	Completed	2Q2020	
Management Fees (Investment)	320	200	120	63%	In-progress	3Q2020	
Health Insurance Accounting Group	300	350	-50	117%	Completed	2Q2020	Scope expanded
Internal Quality Assurance Review (QAIP)	160		160	0%	Not-Started	3Q2020	
Total Hours	3900	1016	2884				
Notes:	Auditor	Projects	Hours Allocated	Status	Projects		
¹ Provide an explanation of actual hours that exceed budget by more than 10%	Andrew	7	1340	Not-Started	13		
	Rosie	7	1600	In-progress	4		
	Harold	4	880	Completed	2		
	TBD	2	80	On-Hold	1		

Agenda Item #5

**A REPORT TO THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS, AUDIT AND LEGISLATIVE COMMITTEE**

INTERNAL AUDIT

AUDIT REPORT

**HEALTH INSURANCE PREMIUM BENEFITS
PLANS AND CARRIERS**

OCTOBER 8, 2019

**ARIZONA STATE RETIREMENT SYSTEM
HI PREMIUM BENEFITS-PLANS AND CARRIERS
OBSERVATIONS AND RECOMMENDATIONS
OCTOBER, 2019**

Purpose

We completed our audit of the HI Premium Benefits-Plans and Carriers at the Arizona State Retirement System (ASRS) on October 8, 2019.

Objectives

The audit objectives are to determine whether the existing controls are adequate and the communications protocol with employers is effective for the retiree health benefits plans for the period of January 01, 2019 to July 31, 2019.

Background

Approved employers may contract with the ASRS to offer health insurance benefits to retirees that are subsidized or partially subsidized by ASRS. Changes to health insurance carriers, carrier plans, or rates are adjusted in PERIS Online (POL) by means of surveys completed by the employer before the beginning of the calendar year or the fiscal year.

Scope

Employer surveys received and processed for enrollment periods beginning January 01, 2019 through July 01, 2019.

Receiving and updating of employer plans and rates processed in POL for active employers based on surveys received, including accuracy and timing of the changes.

Analysis of plans and rates as entered into POL in comparison to the employer surveys received.

Monitoring and approval by appropriate personnel of all plan and rate changes processed for enrollment periods beginning January 2019 up to July 2019.

Review of internal controls within POL, including an effective and accessible audit trail.

Summary of Findings

There are system weaknesses that allow changes to be posted without proper reviews and some confusion caused by the multiple plan names and unnecessary lines for single/family tier groups. The timing on surveys received and the methods of resolving issues are not clearly defined. Documentation is inconsistent concerning resolution and notations.

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HI PREMIUM BENEFITS-PLANS AND CARRIERS
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Conclusion

Overall, the process for entering new plans or rate changes is streamlined however, it is primarily a manual process that requires multiple personnel which leaves greater room for error and demands additional controls to account for each point of input.

Auditor Comments/Observations

It was noted during the June 7 meeting employer surveys may be received by means of multiple formats. Surveys are imaged and saved to a folder on a shared drive and hard copies are retained in a file. The entry of the plans and rates are tracked on a spreadsheet. The Peris HI0442 report is run after changes are entered into POL and sent to the appropriate reviewer for approval.

The rate changes may be approved by the person entering them, as the application does not have a preventative control. Add plans do not offer this option and must be submitted by another technician. Changes in plan names prevent the use of ID #'s and all approvals must be performed line by line rather than selecting all lines requiring approval at once.

It was noted that follow ups are conducted by FSD technicians utilizing emails or phone calls, but not all follow-ups are documented in the POL application. In addition, Membership Accounting Manager Kristiana Zeller voiced an interest in meeting with the Employer Relations Department to discuss concerns of employers not providing timely information.

It was noted during the attempt to obtain access to HI Benefits screens in POL that there is no user role configured to only view health insurance plan information in employer accounts. Access must be granted for read-write. It is recommended user roles should be established to not allow changing data in production while still being capable of viewing the information depending on the needs of the requestor. This recommendation pertains to a concern outside the scope of this audit but in the opinion of the auditor, needed to be noted in this report.

A report to review all changes to any employer was not being utilized by FSD, however, at the suggestion of Internal Audit, the Membership Accounting Manager Kristiana Zeller and the Accounting Specialist Manager Ted Kistner requested such a report on the Technology Services Division (TSD) Service Request dated 9/17/19 for future use. This will provide an audit trail and more easily enable Management to recognize changes not requiring a segregation of duties within POL, to ensure a proper review was performed.

Internal Audit Opinion

Some updates to SOP's and a tightening of manual controls are required. Improved interaction with the Employers responsible for submitting plans and rates is recommended. Overall, the

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process is effective in mitigating significant risks and is compliant with ASRS policies and state regulations.

Description of Audit Work Performed

The audit work performed during this engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. The Internal Audit Division (IA) reviewed the internal control structure, interviewed personnel, obtained and reviewed documentation, and performed analytic reviews when appropriate. IA performed tests of the existing systems, spreadsheets, vendor invoice statements and other supplemental materials to provide sufficient evidence that controls were in place and being monitored, or were needed.

Some of the tests performed were:

Reviewed the HI Carrier Plans SOP dated 4/10/2018

An interview was conducted with the Membership Accounting Manager Kristiana Zeller and the Accounting Specialist Manager Ted Kistner on June 7, 2019. Procedural observations were conducted with Benefit Technician Irene Gomez on June 25, 2019, and with Benefit Technician Robin Young July 16, 2019. At the June 25 observation, the process of entering data into the POL system was illustrated.

A meeting occurred August 12, 2019, which included Membership Accounting Manager Kristiana Zeller, Chief Internal Auditor Harold Mackey, and Internal Audit Officer Andrew Burch. Discussion points included the roles of Financial Services Division in employer relations and follow up on surveys.

Selected 30 employer surveys from 2019: 4 with benefit beginning date of 1/1/19, 1 with benefit beginning date of 4/1/19, and 25 with a benefit beginning date of 7/1/19. The sample was calculated utilizing ISACA publication "Sampling for effective Internal Auditing." The selection was based on the percentage of benefit beginning dates for all 271 active employers (less ADOA and PSPRS): Employer survey contacts report for 2019 received from FSD.

**A REPORT TO THE
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OPERATIONS, AUDIT AND LEGISLATIVE COMMITTEE**

INTERNAL AUDIT

INTERNAL RECOMMENDATION SUPPLEMENT

**HEALTH INSURANCE PREMIUM BENEFITS
PLANS AND CARRIERS**

OCTOBER 08, 2019

**Arizona State Retirement System
HI Premium Benefits – Plans and Carriers
Recommendation Point Sheet**

INTERNAL FINDINGS AND RECOMMENDATIONS

#1: Standard Operating Procedure (SOP)

Condition:

No SOP for receiving surveys detailing the methods of submission and the procedures for processing the surveys prior to the Financial Services Division (FSD) entering into POL.

Effect:

A lack of continuity in methodology could result in processing errors.

Cause:

Updates were not performed timely as new technology was being utilized to receive the surveys.

Criteria:

According to best practices a consistent transition methodology is required to ensure continuity of procedures which reduce risks of error or fraud.

Recommendation #1:

Create an SOP to detail survey reception including responsible parties and follow up procedures when surveys are not received timely.

Recommendation #2:

Alternately, the procedures may be added to an existing SOP pertaining to the processing of New/Updated plans.

Management Response:

We concur. FSD Health Insurance will update the current Health Insurance Carrier Plan SOP.

Updates to be completed by: December 31, 2019

#2: Surveys and Follow Up

Condition:

From a population of 269 surveys, a sample of 30 surveys were tested and thirteen surveys were not received. One survey processed 3 months after the beginning date.

**Arizona State Retirement System
HI Premium Benefits – Plans and Carriers
Recommendation Point Sheet**

Effect:

Based on an analysis performed on the sample selection for rate changes and projecting out to the total population, it was determined that rate increases not entered into the POL application in a timely fashion could potentially result in an underpayment to the employers. This potentially has the effect of an unrecognized liability to the employers.

In addition, follow up with the employers is not consistently documented in POL. Some notes are entered into the original documents sent thus creating the question of document ownership.

Cause:

Communication with employers is inadequate and follow up procedures are not detailed in the SOP to provide consistency.

Criteria:

Best practices require timely updates/corrections to avoid erroneous financial statements and incorrect payments to the employers.

Recommendation #1:

Appropriate follow up with the employers should occur prior to the benefit-beginning period if a survey has not been received and all follow up actions should be documented in the notes for the employer in POL. Employer documents should never be altered to avoid questions of validity in the case a document may become a public record.

Recommendation #2:

An appropriate plan that is documented in an SOP.

Management Response:

FSD HI Accounting will outline a communication process with employers including where this will be documented, such as POL, and not on Employer Survey forms. This process will be updated in the Health Insurance Carrier Plan SOP.

Updates to be completed by: December 31, 2019

#3: Data accuracy

Condition:

Sample 7, id 492310, Ash Fork Joint Limited School District only has single rates entered from the survey. Sample 9, id 462090, Benson Unified School District and Sample 19, id 496500, Golden Ranch Fire District have Cobra Dental Single rates listed in the medical rates section.

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Sample 16, id 420620, City of Safford/Gila Resources shows 16 rates on the survey, however only 13 are listed in POL. Sample 17, id 492030, Clarkdale Jerome School district 3 does not indicate dental rates on the survey, but they were entered 5/2/19. Sample 18, id 300140, Creighton elementary School district 14 indicates no changes in dental rates per the survey although the rates were updated in 2019.

Effect:

Payments to employers may be inaccurate and errors may go undetected.

Cause:

Procedures for entering data were not followed or mistakes were made and not found in the review process.

Criteria:

Best practices require monitoring of procedures performed to reduce the risk of errors or fraud and maintain a segregation of duties.

Recommendation #1:

Potential errors should be noted in the review process. If explanations for apparent discrepancies exist to explain them, they should be noted in the employer's account on POL.

Recommendation #2:

Procedures should be clearly defined and additional training utilized to refresh employee practices.

Management Response:

See response to finding #2.

Updates to be completed by: December 31, 2019

#4: POL functionality

Condition:

Coverage type created for new plans in POL create duplicate lines. Family rates also produce a line for single rates and vice versa. This may create confusion as to where a rate should be appropriately recorded. In addition, multiple steps are required to enter new rates rather than entering the new coverage plan and the rates at one time.

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Rate changes may not be performed on the first page of the employer's account but require multiple steps to locate the rate line and enter. Multiple changes or additions require entering, leaving, and reentering pages in the employer's account.

Effective dates must be entered multiple times although there is no reason for any effective dates to differ.

Effect:

The increased complexity of the data entry process may result in confusion resulting in errors to the POL database for each employer.

Cause:

POL was implemented with some unforeseen consequences.

Criteria:

Best practices dictate reduced complexity in application procedures to reduce the risk of errors or fraudulent entries, which may lead to misstatements of financial records and incorrect payments to employers.

Recommendation #1:

A request to update POL to simplify the process would save time and reduce the potential for errors.

Recommendation #2:

Testing by FSD staff and reported concerns may help to resolve issues more timely.

Management Response:

Changes in the POL process are needed as well as the Employer PWEB secure account. ASRS Employers need an interactive and comprehensive employer portal to address the yearly updates for new carriers and plans. This process needs to be straightforward and intuitive. The employer should have full visibility of the information submitted to the ASRS, which should also include other employer compliance obligations like verification of member HI enrollment and premium benefit payments.

To be completed by: TBD by Executive/Senior Management

**Arizona State Retirement System
HI Premium Benefits – Plans and Carriers
Recommendation Point Sheet**

#5: Employer relations

Condition:

The SOP for HI Carrier Plans does not specify the means of communication with an employer if there is an issue with the survey information. It also does not require any notes being added to the employer account or message screen to notate communications nor required actions taken by the Accounting Specialist.

Effect:

Lack of documentation prevents ensuring proper contact and response from an employer. This may also result in changes to rates submitted incorrectly being unverified as employer approved. In addition, corrections may not be easily tracked in POL.

Cause:

SOP requires a more detailed update.

Criteria:

Best practices require an effective audit trail to reduce the risk of undetected error or fraud, improper payments to employer, and a clear delineation of personnel responsibility.

Recommendation #1:

An update to the SOP should be made to include the need to notate changes and utilize traceable communications such as emails or Electronic Secure Messages.

Recommendation #2:

SOP's should be reviewed and updated or approved annually.

Management Response:

See response to finding #2.

Updates to be completed by: December 31, 2019

#6: Document retention

Condition:

All surveys are printed and maintained in hard copy although they are sent electronically and an electronic copy is saved to a shared drive.

**Arizona State Retirement System
HI Premium Benefits – Plans and Carriers
Recommendation Point Sheet**

Effect:

This appears to be an unnecessary procedure associated with the cost of paper and the need for storage file space.

Cause:

Procedures were not updated timely as new technology was being utilized to receive the surveys.

Criteria:

Best practices indicate the need to utilize technology to its most efficient potential to avoid unnecessary costs and inefficient record maintenance.

Recommendation #1:

Since all surveys are received electronically, they do not need to be printed.

Recommendation #2:

Electronic maintenance is more efficient and reduces costs.

Management Response:

Phase 1 (short term): Procedures to be updated to stop the printing and implement a paperless process.

Additionally, there is an increased risk associated with employer compliance with annual survey requests, as POL does not have a mechanism for monitoring employer surveys nor a way to have the employer acknowledge their understanding of compliance requirements.

To be completed by: 12/31/2019

Phase 2 (long term): Changes in the POL process are needed as well as the Employer PWEB secure account. ASRS Employers need an interactive and comprehensive employer portal to address the yearly updates for new carriers and plans. This process needs to be straightforward and intuitive. The employer should have full visibility of the information submitted to the ASRS which should also include other employer compliance obligations like verification of member HI enrollment and premium benefit payments.

To be completed by: TBD by Executive/Senior Management

**Arizona State Retirement System
HI Premium Benefits – Plans and Carriers
Recommendation Point Sheet**

#7: Review documentation

Condition:

Evidence of reviews is performed with signatures on hard copies of the surveys. This method is not easily traceable through POL or by reporting methods. In addition, Samples 2 and 9 showed no evidence of approval on the hard copy surveys reviewed.

Effect:

Verification of reviews allows an effective audit trail and reduces the risk of missed errors. This provides a clear path of responsibility within the procedure.

Cause:

Procedures were not adjusted timely as new technology was being utilized to process data.

Criteria:

Best practices indicate the need to utilize technology to it's most efficient potential to avoid unnecessary costs and inefficient record maintenance, as well as to reduce the risk of undetected errors or fraud.

Recommendation #1:

All reviews need to be performed timely in all cases of data entry with an effective audit trail to verify them.

Recommendation #2:

A review and approval function in POL would better record segregation of duties and be easily reported by queries.

Management Response:

Phase 1 (short term): A Service Request will be submitted requesting a workflow process change.

Submission of Service Request be completed by 12/31/2019

Phase 2 (long term): See Phase 2 response for finding #6.

To be completed by: TBD by Executive/Senior Management

**Arizona State Retirement System
HI Premium Benefits – Plans and Carriers
Recommendation Point Sheet**

#8: Segregation Of Duties

Condition:

New plans entered may not be submitted for processing by the same employee entering the plan data; however, the employee entering the data may submit rate changes made to already existing plans for posting

Effect:

Changes may be performed and submitted by a single FSD accountant, increasing the potential for errors and fraud.

Cause:

POL does not have a hard stop to prevent this.

Criteria:

Segregation of duties is a best practice utilized to reduce the risk of undetected error or fraud.

Recommendation #1:

All responsibilities should have checks and balances to prevent error and fraud. A hard stop in POL would resolve the issue, meaning the individual entering the change cannot submit it for posting.

Recommendation #2:

A request to the POL team in TSD should be submitted to restrict employees altering any data in a plan from also submitting for posting.

Management Response:

Phase 1 (short term): A Service Request will be submitted requesting a workflow process change.

Submission of Service Request be completed by: 12/31/2019

Phase 2 (long term): See response for Phase 2 at finding #6

To be completed by: TBD by Executive/Senior Management

Agenda Item #6



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MEMORANDUM

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

FROM: Mr. Paul Matson, Director
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Mr. Dave King, Assistant Director and Chief Information Officer, Technology Services

DATE: December 20, 2019

RE: **Agenda Item #6:** Presentation, Discussion, and Appropriate Action Regarding the ASRS Technology Services Division (TSD) Status and Update on the Plan and Activities

Purpose

To share with the OALC the recent accomplishments and future direction of the ASRS TSD

Background

Upon completion of the project to modernize the ASRS' proprietary pension administration system (an effort dubbed the Oracle Modernization Project), the ASRS TSD has reached an inflection point.

The Oracle Modernization Project will be completed sometime in the middle of Fiscal Year 2021, a culmination of a \$10 million project to convert the pension administration system from outdated desktop-based to web-based application. The six-year project also included re-engineering and enhancements of key business processes.

Going forward, TSD must take steps to ensure that the ASRS' systems continue to be well-maintained, responsive and highly effective while minimizing costs.

Throughout the years, TSD has striven to meet aggressive goals and objectives outlined in the ASRS Strategic Plan to optimize operational effectiveness (Strategic Priority 4) by creating pension administration systems that are high performing and able to meet evolving business needs (4.2). The Strategic Plan includes several key performance indicators and dozens of measures and initiatives to ensure TSD offers systems that meet or exceed aggressive user satisfaction rating while minimizing costs to the Trust Fund by implementing best practices for application development.

Per an independent pension system benchmarking company, CEM, the ASRS ranks as a top tier quality service provider to our members for a relatively low cost. A significant part of that success is due to the investment in on-site application development within TSD.

In the coming years, TSD must ensure that the foundation of its network and applications remain solid and secure, and ensure that we are providing the most cost effective and efficient service to our customers.

To that end, the ASRS will embark on the following major initiatives:

- 1) **Best practice review:** Ensure TSD is following best practices for application development through research with independent consulting services (InfoTech, Gartner Group), other Arizona state agencies and pension-system peers worldwide.
- 2) **Security:** Develop and implement initiatives to further secure highly sensitive data and operations
- 3) **DevOps:** Implement a DevOps culture and pipeline to improve the efficiency of custom application deployment
- 4) **Cloud Migration:** Migrate all TSD operations from on-premises into the cloud
- 5) **Technical Debt:** Minimize the negative impact of technical debt on custom applications

These major initiatives are over and above ongoing TSD operations to maintain and secure the existing system, and will require dedication from staff across all TSD program areas – including Network, Architecture, Release Management and Application Development – as well as the Security team.

Recent TSD Team Structure Changes

Recently, the focus of TSD has changed from one of building and supporting new software development of our pension administration system to one of securing and maintaining that existing tools and information.

Over the past three years, TSD has restructured* to form two development teams dedicated solely to information security (+8 FTE) while expanding the footprint of the Network Infrastructure Systems team from 13 to 20 (+7 FTE) to support additional security and network needs.

During this time, we have seen a reduction in teams dedicated solely to new business project development and production support of the proprietary pension administration system from 32 to 25 (-7 FTE).

Overall, TSD is a bit larger today (+8 FTE overall) than it was in July 2016 in an effort to place greater focus on information and application security while still maintaining existing applications. These additional FTE positions were re-allocated from other divisions as budget allowed, as the ASRS has fewer overall FTEs on staff today than it did in July 2016.

In addition, TSD has reduced its need for temporary staff from 18 to 14 (-4 temporary) as of today, with a further reduction expected when the Oracle Modernization project ends next year from 14 temporary staff to 11 (-3 temporary).

ASRS also formed a stand-alone *Information Security* team, headed by CISO Jeff Hickman. This team (+5 FTE) reports directly to the ASRS Deputy Director and is not part of the TSD Organizational Chart. TSD teams work very closely with the InfoSec team on all aspects of operations and development.

**all counts are comparing 'from' July 2016 'to' November 2019.*

New Permanent TSD Team Structure (2020-2024)

The following describes staff allocations to each program area and team. These teams are in place for the long term to maintain the ASRS as a top-tier service, low-cost operation.

Network Infrastructure Systems (two teams)

TSD makes sure all systems are available and running smoothly with two teams dedicated to that effort.

The *Network Infrastructure Systems* (NIS) team maintains and secures ASRS network operations, which includes all hardware, software and third-party engagements. This group manages nearly \$2 million per year in equipment, software and licensing expenditures. This same group works on new initiatives (projects) to enhance security and infrastructure over time. An on-premises data center in Phoenix houses all servers and other hardware needed to keep the network up and running. The team also maintains a disaster-recovery site, which was recently migrated from an on-premises operation in our Tucson office to a cloud-based solution (December 2019).

The *Database* team manages the enterprise Oracle database, which contains all the sensitive data needed to collect, maintain and disburse monies on behalf of the ASRS membership.

Future major projects for the teams include migrating all operations to the Cloud, implementation of a new Service Desk Portal, and several security-focused network projects.

Security Management (two teams)

TSD employs several teams focused on managing network, application and information security, a key priority for an organization that manages millions of personal demographic and retirement account balance records.

Two primary teams, *Security Initiatives* and *Security Remediation*, are permanent development teams that implement new security measures and remediate weaknesses within ASRS applications and tools.

A portion of the NIS team – which manages our entire ASRS network – are dedicated solely to managing IT security, both inside and outside of the ASRS building.

Production Support (three teams)

TSD has staff dedicated to responding to requests for maintenance of our network and systems in production to ensure smooth operations for staff in other divisions. These teams are not staffed to build any new applications or perform major enhancements on current applications. They are simply dedicated to keeping our existing applications running and to move new releases into production.

The *Production Support* team manages requests for enhancements, incident remediation and data changes for our proprietary pension administration system. This team can complete small enhancement requests as time is available after bug fixes and data changes.

The *System Upgrades* team maintains the currency of the underlying technologies used for custom application development. This team recently finished a long-term project to upgrade the technology used by our Java code to access the Oracle database.

The *Release Management* team manages the configuration, build, testing and release of over 16+ ASRS custom applications in stable verification environments, and facilitates the release of new custom code to production 9-12 times per year.

A portion of the NIS team manages the helpdesk, which will soon include a Service Desk Portal. This team completes requests related to problems with hardware, infrastructure, network appliances and third-party applications.

New Business Projects (one team)

Once the Oracle Modernization project is complete, the ASRS will have one project team available to manage and implement new business oriented upgrades to the custom pension administration system.

This *Business Projects* team will become available for new projects in the fall of 2020. Several medium to large enhancement projects are waiting for this team to become available. Those projects will further improve service and/or reduce staff effort required to meet agency objectives.

Major Planned Initiatives (2020-2024)

TSD is embarking on these major initiatives in the coming years to modernize and improve our infrastructure, which will make the ASRS more efficient and sustainable.

Best Practice Review (2020):

TSD has begun a research project to investigate best practices for custom application development to support business needs. The research will include cost and benefit comparisons of ongoing TSD Operations to a COTS (Customized Off-the-shelf) system that would include implementation and annual maintenance costs. The research will include recommendations from highly respected consulting companies as well as quotes and feedback from industry leaders in developing COTS systems for similar state agencies and pension systems.

This research project will not require any new funding.

Security: IPS Project (2020-2023)

The Information Protection Security (IPS) project is funded through a Project Investment Justification (PIJ) to remediate a series of security initiatives that bundle into a large scale for implementation over a period of three years in multiple releases.

This project will require the use of continuously appropriated funds to fund one development team – comprised mostly of FTEs – to complete the scope of the project.

DevOps (2020-2022)

To support better efficiency and consistency across multiple teams, TSD will implement a DevOps culture change and an automated pipeline for the build-test-release phases of the software development life cycle.

The pipeline will use tools to replace or enhance many of the tedious manual tasks used by the software development and configuration teams, which will have two major impacts on the business users:

- 1) Faster and more frequent releases of new features and bug fixes
- 2) More new features and bug fixes released per year

The largest impact for TSD is the improved sustainability of custom applications delivery model and a higher chance to retain quality staff (less burnout on tedious tasks, newer technologies).

The DevOps pipeline will be applied to the 16+ custom ASRS applications over the next 2-3 years, starting in the spring of 2020.

This project will not require any new funding or permanent staffing.

Cloud Migration (2020-2022)

The state mandates that all agencies must have moved their entire IT operation into the cloud by June 2021 while removing any dependency for on-premises data centers.

In the first phase, the ASRS completed migration of its disaster recovery data center into the cloud (December 2019). At this point, the ASRS no longer needs a backup data center in the Tucson office.

At the end of the second phase, all IT operations will be in the cloud and no longer on-premises by June 2022. Moving operations into the cloud will reduce costs related to upgrading/replacing data center equipment, as well as costs related to maintaining the data center locations themselves.

The cloud migration effort will likely have a one-time implementation expense that will be requested for the 2022 budget, as well as additional funding for ongoing licensing costs on all subsequent base-operating budgets.

Technical Debt: Pension Payroll Re-Write (2021-2024)

Many of the batch-oriented applications, including the monthly pension, new retiree and 13th check payrolls still use technology that was originally designed and written almost twenty years ago. While the application is still viable, the technology is outdated and difficult to maintain. The agency needs to re-write the payroll functions into a more agile and efficient process that uses current technologies on the market.

This *Pension Payroll Re-Write* project has not yet been approved or funded. TSD will submit a Project Investment Justification (PIJ) to be completed by 2024 as a new project completed either by an existing ASRS team or by a third-party provider. As part of the PIJ process, TSD will obtain multiple quotes from vendors to provide this product as a “Software as a Service” (SaaS). This SaaS solution could replace the need for an ASRS project team to complete the work.

This project will require the use of additional continuously appropriated funds to either fund one development team – comprised mostly of FTEs – to complete the scope of the project or to secure a vendor to complete the project as a SaaS. If the vendor is chosen, this project will also require additional funds in each subsequent year for maintenance.

Major Initiatives not yet planned (2022+)

While the initiatives in the prior section are planned to begin in the next 12 months, there are more initiatives still on the horizon expected to be large enough to require additional funding to implement.

Filenet upgrade

The proprietary pension administration system uses Filenet for

- 1) Imaging: all incoming and outgoing documents are imaged and visible to all authorized personnel

- 2) Workflow: nearly every business process is automated with step-by-step handoffs to ensure efficiency and security along the way.

The current version of Filenet is out of date, and will need to be upgraded some time in FY 2022 or FY 2023 to ensure continued support of the product. A third-party vendor will need to be engaged to upgrade the software.

Centralized logging

To improve security via enhanced data forensics, the ASRS is investigating the licensing of a tool that will consolidate all system logs into a single, searchable application that is indexed in such a way to enhance research efforts.

A third-party vendor will need to be engaged to host and manage the logs of all ASRS applications, servers and other firmware.

Other Business projects

The ASRS has accumulated a long list of potential business-oriented projects to enhance the current system in future years, including a downloadable App for ASRS members to use, enhanced Health Insurance handling, and many more.

Going forward, TSD will only have one team available per year to implement major system enhancements. If more resources are needed, additional funds may need to be identified.

Agenda Item #7

Note: There are no materials for this topic

Agenda Item #8

Note: Confidential materials have been provided to the Committee and not included in this book.

**Note: There are no
materials for Agenda
Items #9 - 11**