

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

**Wednesday, July 8, 2020
2:30 p.m., Arizona Time**

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

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

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge, Chair
Mr. Tom Manos, Vice-chair
Mr. Rene Guillen

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

Mr. Clark Partridge, Chair, welcomed the attendees and thanked staff for their hard work and preparation for the meeting.

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

2. Approval of the Minutes of the April 8, 2020 Public Meeting and Executive Session of the OALC

Motion: Mr. Tom Manos moved to approve the Minutes of the April 8, 2020, Public Meeting and Executive Sessions of the OALC. Mr. Rene Guillen seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

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

3. 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 the Internal Audit Division (IAD) is currently working on. Mr. Mackey indicated the audit team is currently not working at full capacity due to various reasons. Mr. Mackey reviewed the items in the "Follow-up Monitoring", noted significant progress has been made on the legislative implementation items, and they were waiting for the most recent report from CliftonLarsenAllen on the Cash Controls Audit follow-up, which was expected within the next week, or two. Mr. Mackey further noted they were able to make a significant turnaround with regard to the GASB 68 fieldwork/testing. Both FY2019 and FY2020 have been completed. Mr. Mackey reviewed some of the workplan modifications made since the last OALC meeting as follows:

- Priority ranking added to each audit
- Target field added to identify progress
- Highlight added on audits exceeding 10% of planned audit hours
- Revised column added to highlight adjustments

Mr. Mackey briefly reviewed the "Budget/Hours Allocation" slides.

4. Review of Recently Conducted Audits

Mr. Mackey reviewed the following audit conducted by the IAD:

a. Investment Management Fees – Internal Process

The IAD had no findings from the ASRS Investment Management Fees review of internal processes. This audit was initiated by an auditor who is no longer with the ASRS, therefore, completed by Mr. Mackey. This was a complex audit, as each contract had to be read, with no two alike. The primary focus was on private equities.

5. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including:

- a. The ASRS Appropriated and Continuously Appropriated Budget and Spending Plans for Fiscal Year (FY) 2021.**
- b. The ASRS Appropriated and Continuously Appropriated Budget Request and Spending Plans for FY 2022.**

Mr. Anthony Guarino introduced Ms. Martha Rozen, Chief of Administrative Services, Mr. Chris Gustafson, Budget and Procurement Manager, and Ms. Kerry White, Assistant Chief Investment Officer who led the discussion and present the proposed spending plans.

Ms. Rozen opened the discussion by recognizing Ms. M. Harrison, Budget Manager, who provided a great deal of assistance and input with preparing the materials. Ms. Rozen added that although Mr. Gustafson and Ms. White will be presenting the materials, she, Ms. Harrison and Mr. Dave King, Assistant Director, Technology Services Division, would be available to answer any questions the Committee may have regarding the proposal. Ms. Rozen turned the presentation over to Mr. Gustafson.

Mr. Gustafson reviewed the budget recommendation with the Committee. Mr. Gustafson highlighted the following:

- The budget includes key performance indicators to reduce the base administration budget by 3% from FY 2017 to FY 2020. The agency has not only met that goal but has exceeded it and reduced its base administrative spending by 4.68%.
- Over the course of the next several fiscal years, the ASRS continues to focus on managing budgets and implementing strategies designed to improve operational effectiveness and make the ASRS more cost effective.
- FY 2021 and FY 2022, administrative spending plans support system and technology modernizations, the framework of the ASRS business model, with an emphasis on security risk mitigation and re-engineering of processes. These investments in technology will help the ASRS avoid future costs associated with inefficient processes.
- FY 2022 the ASRS must complete its required migration to the cloud, upgrade an essential system and implement a critical technology solution to further safeguard data. This will require an increase in the budget request of the ASRS' base operating appropriations. Mr. Gustafson provided the following details:
 - In 2019 the Arizona Department of Administration implemented a Cloud First policy which necessitates the ASRS to migrate its infrastructure for data, systems, servers, and processes from its current physical data center to a cloud environment. With this will come a one-time Cloud Migration transition cost for external consulting resources, followed by ongoing annual Cloud costs for Cloud services.
 - The current version of FileNet is no longer supported and the ASRS will need external resources to successfully configure and implement an upgrade necessary to eliminate any disruption in service to this document management system.
 - Data subsetting, a software product compatible with core applications to allow teams to utilize only the relevant section of the ASRS' database rather than the full system will enable the ASRS to work on improvements without affecting the entire database or creating business disruption, along with enhancing data security.

Mr. Gustafson responded to questions from the Committee and turned the presentation over to Ms. Kerry White, Assistant Chief Investment Officer, to review the Investment Spending Plan as follows:

- FY 2021 and FY 2022 are relatively the same; with very little differences in the projections
- The bulk of the requested budget is for management fees in public and private markets
- Changes to the spending plan may occur from additional automation of workflow, mandate changes to the portfolio, regulatory or legislative changes or management decisions.
- Finalization of contractual changes currently in progress for additional automation of workflow, which will come with additional costs that are not reflected in the materials presented, but will be updated as the information becomes available.

Motion: Mr. Tom Manos moved to accept and forward to the ASRS Board of Trustees the following:

- 1) An appropriated budget request for FY 2022 in the amount of \$24,969,000, with an understanding there may ultimately be changes to the total appropriated budget amount due to legislative and executive recommendations.
- 2) The proposed administrative spending plan of \$30,596,300 and continuously appropriated investment spending plan of \$103,925,900 for FY 2022 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid.

Mr. Rene Guillen seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

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

6. Call to the Public

No members of the public requested to speak.

7. Requests for Future Agenda Items

None were requested.

8. The next regular public OALC meeting is scheduled for Wednesday, October 14, 2020, at 2:30 p.m.

Mr. Clark Partridge noted the next OALC meeting is scheduled for Wednesday, October 14, 2020 at 2:30 p.m.

9. Presentation, Discussion, and Appropriate Action Regarding the ASRS Group Medical Benefits Program Solicitation and Request for Proposal (RFP)

Mr. Paul Matson, Director, introduced Ms. Athena Elliston, Budget and Procurement Analyst, Administrative Services Division, who will be presenting on behalf of the Procurement Team.

Ms. Elliston opened the presentation stating the purpose of today's presentation is to present a recommendation for review and consideration for contract award for the ASRS group medical insurance and pharmacy services program.

Ms. Elliston further stated contracts are typically awarded for a maximum of five years and the current contract for medical and pharmacy services is in its fifth year; due to expire at the end of the calendar year, which is why the ASRS solicited for these services with an RFP. Ms. Elliston shared the ASRS was fortunate to have received a seven offers during this solicitation which are identified in the cover memo of the meeting materials.

Ms. Elliston advised the Committee the details of the review committee were included in the meeting materials and are confidential. If the Committee had specific questions regarding those materials, they would need to be discussed in executive session. The Committee indicated they had no further questions at this time.

Motion: Mr. Tom Manos moved to accept the Evaluation Committee's recommendation and forward to the full Board for approval. Mr. Rene Guillen seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

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

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

Motion: Mr. Tom Manos 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. Rene Guillen seconded the motion.

By a roll call vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

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

The Committee convened to Executive Session at 3:16 p.m.

Mr. Rene Guillen left the meeting at the conclusion of the Executive Session at 3:55 p.m.

The Committee reconvened to Public Session at 3:57 p.m.

11. Adjournment of the OALC

Mr. Clark Partridge adjourned the meeting at 3:58 p.m.

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM