

# 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
- Adheres 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 successfully

## 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

**AGENDA**

**NOTICE OF COMBINED PUBLIC MEETING AND POSSIBLE EXECUTIVE SESSION  
 OF THE ARIZONA STATE RETIREMENT SYSTEM  
 OPERATIONS, AUDIT, AND LEGISLATIVE COMMITTEE**

July 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 **telephonic** meeting open to the public on Wednesday, July 8, 2020, beginning at 2:30 p.m. In light of the Arizona Department of Health Services’ recommendation to cancel or postpone mass gatherings of 10 or more people, and to help prevent community spread of COVID-19, the meeting will be audience free. **Trustees of the Board and the public may attend by telephone conference call at 877-820-7831, using Participant Passcode: 857127#.**

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.

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 April 8, 2020, Public Meeting and Executive Session of the OALC  
 (*estimated time: 1 minute*) ..... Mr. Clark Partridge
3. 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
4. Review of Recently Conducted Audits (*estimated time: 10 minutes*) ..... Mr. Paul Matson  
 ..... Mr. Anthony Guarino  
 ..... Mr. Harold Mackey
  - Investment Management Fees – Internal Processes

5. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including: *(estimated time: 20 minutes)*

- 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. Paul Matson  
Director  
..... Mr. Anthony Guarino  
Deputy Director and Chief Operations Officer  
..... Ms. Martha Rozen  
Chief of Administrative Services  
..... Mr. Chris Gustafson  
Procurement and Budget Manager  
..... Ms. M. Harrison  
Budget Manager, Administrative Services Division  
..... Ms. Kerry White  
Assistant Chief Investment Officer

6. Call to the Public..... Mr. Clark Partridge

Those wishing to address the ASRS OALC will be requested to do so telephonically. Trustees of the OALC 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 OALC may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

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

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

*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.*

9. Presentation, Discussion and Appropriate Action Regarding the ASRS Group Medical Benefits Program Solicitation and Request for Proposal (RFP) *(estimated time: 20 minutes)*

..... Mr. Paul Matson  
..... Mr. Anthony Guarino  
..... Ms. Martha Rozen  
..... Ms. Athena Elliston  
Budget and Procurement Analyst, Administrative Services Division  
..... Mr. Russ Levine  
Health and Disability Plan Administrator, Member Services Division

*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.*

- 10. Presentation, Discussion, and Appropriate Action Regarding the ASRS Information Security Program *(estimated time: 20 minutes)* ..... Mr. Paul Matson  
..... Mr. Anthony Guarino  
.....Mr. Jeff Hickman  
Information Security Officer

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 with disabilities may request 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 July 1, 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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AZASRS.GOV

*Paul Matson  
Director*

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

**Wednesday, April 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 2:31 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. Melanie Alexander, ASRS Committee Administrator, provided all attendees with telephonic meeting guidelines.

### **2. Approval of the Minutes of the January 8, 2020 Public Meeting and Executive Session of the OALC**

**Motion:** Mr. Tom Manos moved to approve the Minutes of the January 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 an Update of the ASRS Employer Compliance**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, provided an introduction, stating that after the ASRS changed employer compliance from an audit to a management function staff made the commitment to report the progress of the program to the OALC periodically, which is the purpose of today's presentation. Mr. Guarino turned the presentation over to Mr. Patrick Toto, Employer Relations Supervisor.

Mr. Toto provided a brief summary of what the presentation will consist of today. Mr. Toto explained the purpose of the compliance program is to take a proactive approach, comparing historical and current data to anticipate and reduce any risks. The goal is to meet with three employers each quarter to determine enhancements that can be made to ASRS communications or service methods and to discuss educational opportunities; however, due to the current national health crisis, this quarter's goal has not been met. The compliance program that is in the process of being completed is the Health Insurance Premium Benefit Program. Of the 286 employers identified and surveyed, 100% responded to the survey, with 61 noted as needing follow-up or further action. Upon reaching out to the 61 Employers noted as needing follow-up, the ASRS is only pending responses from 12 of the employers. Mr. Toto reviewed the timeline his team follows throughout the year to ensure they stay on track and responded to questions from the Committee.

#### **4. Presentation, Discussion, and Appropriate Action Regarding the 2019 Rulemaking Initiative Regarding Calculating Benefits**

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, addressed the Committee announcing this rulemaking is finalizing the last of the items on the 2018 and 2019 regulatory agendas, which is codifying what the ASRS is already doing in practice in regard to certain types of applications such as retirement, survivor benefits, etc. Ms. Thomas further stated it also reorganizes some of the requirements that have already been placed in rule to make them more readable and understandable. Ms. Thomas added that while going through this process, the ASRS was able to minimize some of the requirements on the application, which makes the requirements less burdensome to the regulated community.

Ms. Thomas responded to questions from the Committee.

**Motion:** Mr. Tom Manos moved to approve the draft rulemaking language to be filed with the Secretary of State. 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

#### **5. Presentation, Discussion, and Appropriate Action Regarding the 2020 Five-Year Rule Review Report**

Ms. Jessica Thomas announced that by state statute, every agency is required to review their rules every five years to ensure that they meet certain criteria. This is to ensure that rules that are no longer applicable are removed and that the existing rules are continuing to be effective. Ms. Thomas advised this review included four of the ASRS' articles and it was determined that only minor updates were

needed. The updates being recommended reduce the burden on the regulated community by removing some of the requirements that are no longer needed to process some applications.

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

**Motion:** Mr. Tom Manos moved to approve the draft Five-year Review Report to be filed with the governor's Regulatory Review Council. 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. 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 reviewed the items in the "Follow-up Monitoring" and noted FSD is completing the second of the three year Cash Controls Audit and most of the findings identified in the CliftonLarsenAllen assessment have either been resolved or are in the process of being resolved. The results are expected in late May or June. Mr. Mackey briefly touched on the additional items on the "Follow-up Monitoring" slides in addition to reviewing the "Legislation Implementation", and "Budget/Hours Allocation" slides. Mr. Mackey advised notifications have been sent out to the foreign annuitants as required every three years but due to the current national health crisis, extensions are being granted for providing the necessary notarized documents.

Mr. Clark Partridge noted some audits had exceeded the budgeted hours and asked Mr. Mackey at what point does he assess the status of an audit to determine what it is going to take to complete. Mr. Mackey indicated in some instances target dates are simply missed and in others, the scope is extended during the course of the audit, thus exceeding the budgeted hours. Some suggestions offered were:

- Revise the Budget/Hours Allocation section of the Quarterly Audit Report to clearly account for audits exceeding the allocated hours - add a column titled, "revised budgeted hours"
- Prioritize audits to assist in plan adjustments going forward

Mr. Mackey will review modifications to the report with staff.

## **7. Review of Recently Conducted Audits**

Mr. Mackey took a moment to provide a summary of the differences between the audit of the Health Insurance Premium Benefits that Mr. Andrew Burch, ASRS Audit Officer, was about to present versus the presentation from Mr. Patrick Toto earlier in the meeting. Mr. Toto's presentation focused on the external data coming from the Employers, whereas, Mr. Burch focused on the internal processes agency staff follows with the data coming into the agency to make sure benefits are paid, adjustments are made, etc. Mr. Mackey turned the presentation over to Mr. Burch who reviewed the following audits conducted by the IAD:

**a. Health Insurance Premium Benefits-Enrollee Updates for Other Employers – Internal Process**

The IAD had no findings from the ASRS Health Insurance Premium Benefits-Enrollee Updates for Other Employers review of internal processes. The IAD did have observations noted to update SOPs for clarity, which FSD management was in agreement with and has begun.

**b. Information Risk Management (IRM) Tool-Risk Assessment – Internal Process**

The IAD had no findings from the Information Risk Management (IRM) Tool-Risk Assessment review of internal processes. The IAD did have some observations noted.

**8. Call to the Public**

No members of the public requested to speak.

**9. Requests for Future Agenda Items**

None were requested.

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

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

**11. Presentation, Discussion, and Appropriate Action Regarding the ASRS Group Dental Services Solicitation and Request for Proposal (RFP)**

Mr. Guarino and Ms. Martha Rozen, Chief of Administrative Services, introduced the topic and turned the presentation over to Ms. M. Harrison, Budget Manager, Administrative Services Division, who will be presenting on behalf of the Procurement Team. Ms. Harrison took a moment to identify the Procurement team members: Mr. Chris Gustafson, Budget & Procurement Manager; Ms. Athena Elliston, Procurement Analyst; and Ms. Martha Rozen, ASRS Chief Procurement Officer, who has delegated authority by the State of Arizona Procurement Administrator.

Ms. Harrison 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 dental insurance program. Ms. Harrison provided a brief summary of the OALC oversight responsibilities, which is outlined in the ASRS Board Governance Policy Handbook. The OALC has oversight for general contract management and procurement of specific third-party vendors and forwarding to the full Board for approval of recommended vendor selections; the dental insurance program is one of them.

Ms. Harrison further stated contracts are typically awarded for a maximum of five years and the current contract for dental 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. Another factor taken into consideration was that the ASRS is considering moving toward a self-insurance model, which may require changes to its approach as the agency moves into a new contract cycle. Ms. Harrison shared the ASRS was fortunate to have received a number of offers during this solicitation which created a truly competitive process.

Ms. Harrison advised that the information she has shared thus far is public information, the recommendation from the evaluation committee that is contained in the confidential materials is confidential and would need to be discussed in executive session if the Committee had further questions regarding those materials. 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

## **12. 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 3:25 p.m.

The Committee reconvened to Public Session at 3:59 p.m.

## **13. Adjournment of the OALC**

Mr. Clark Partridge adjourned the meeting at 4:00 p.m.

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



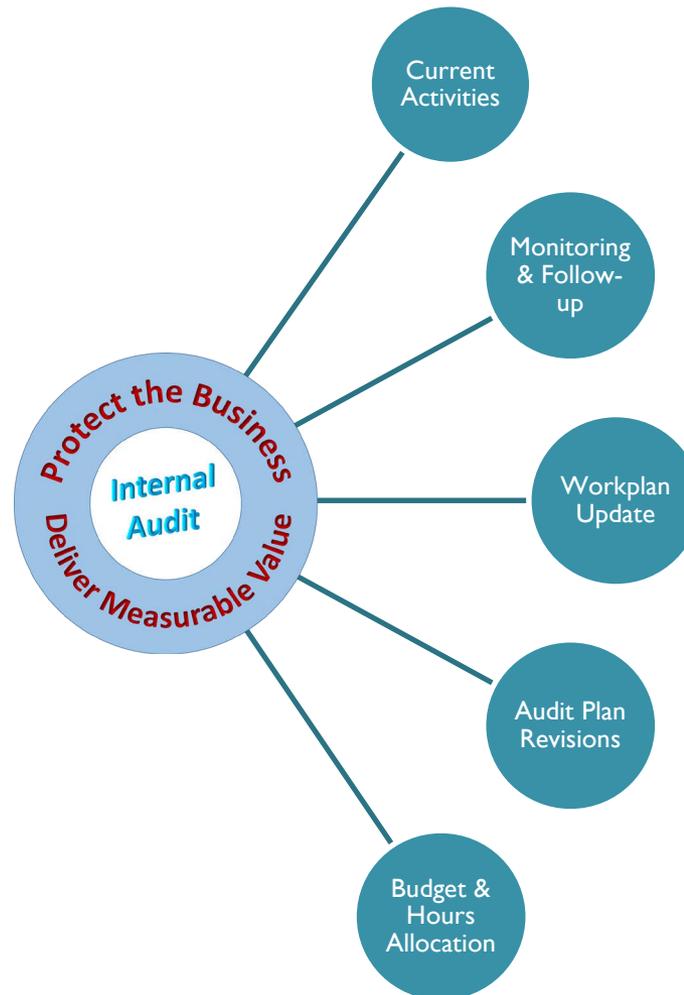
# Quarterly Audit Report

**FY 2020/Q4**

Internal Audit Division  
July 2020



# Internal Audit



# Current Activities

- Administrative and Other Matters
  - Update IA procedures to align with enhanced audit functions
  - Comprehensive update of IA Reference Manual
  - Revisions to the IAD Biennial Plan – proposed FY 2021 adjustments
  - Fraud Oversight (Hotline, Administration, Investigations)
- Staffing report
  - IA has established weekly meetings
  - 2 auditors during this time period; one auditors on sick leave
  - Staff Continuing Education and Professional Development
    - Training/Skills realignment for IA staff
- Ad Hoc & Special Reviews
- Follow-up on 9 vs. 12 study
- Assisted Employer Relations and FSD with PPE reporting
- Suggested correction plan for employer for incorrect member hours reporting with Employer Relations

# Current Activities

## ADVISORY

- Reconstitution Plan / Reconstitution Compliance monitoring
- COVID-19 / COOP-related meetings
- Employer Relations and Compliance Monitoring [Monthly]
- Assessment of IMD risks related to the public equity function
- Advisory on additional automation of the IMD public equity function
  - Review and assess SSNC (Shared Assessments) and other related documents
- Rules Committee
  - Reviewed statutes for harmonization
- Job Shadowing – postponed due to COVID-19
- Consideration of internal controls Information Technology activities [Sprint Meetings]
- Advised CA and ER about questionable accruals

# Monitoring & Follow-up

## **LEGISLATE IMPLEMENTATION**

- Staff has begun the rulemaking process for the last four legislative changes listed on this spreadsheet
- Staff is still working with our attorneys to address the first legislative change listed

## **INTERNAL AUDIT FOLLOW-UP STATUS**

- Vendor Efficacy – All findings have be addressed
- HAIG – no status at this time

## **EXTERNAL AUDIT & REVIEW FOLLOW-UP STATUS**

- Cash Controls – Four remaining findings
  - Two findings completed during the quarter
  - Two have been deferred due to COVID-19 pandemic
- GASB 68 Fieldwork/Testing – both FY 2019 & 2020 is complete

# Legislation Implementation

Legislation	Description	Effective Date	Due Date	Status	Comment
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. 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; tax consultant review completed.
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.

# IA Follow-ups

Audit   Project	Finding	Due Date	Status	Comment
Vendor Efficacy FU 3	ASRS is under-utilizing its available training for Skillssoft classes.	11/1/2019	Completed	Reviewed by HR and Training as part of the total training offered by ASRS.
HIAG FU 1	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.		In-process	HI Carrier Plans SOP updated 5/29 to include additional instructions
HIAG FU 2	Thirteen of 269 surveys tested not received as of the benefits beginning date. One survey processed 3 months after the beginning date.		In-process	Division Memo distributed to Member Accounting specialist's 9/19. SOP updates in progress.
HIAG FU 3	Procedures for entering data were not followed or mistakes were made and not found in the review process.		In-process	HI Carrier Plans SOP updated 5/29 to include additional instructions
HIAG FU 4a	Coverage type created for new plans in POL create duplicate lines. Family rates also produce a line for single rates and vice versa. In addition, multiple steps are required to enter new rates rather than entering the new coverage plan and the rates at one time.		In-process	Service Request submitted 9/17/19. Not yet completed.
HIAG FU 4b	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.		In-process	Service Request submitted 9/17/19. Not yet completed.
HIAG FU 4c	Effective dates must be entered multiple times although there is no reason for any effective dates to differ.		In-process	Service Request submitted 9/17/19. Not yet completed.
HIAG FU 5	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 required any notes being added to the employer account or message screen to notate communications nor required actions taken by the Accounting Specialist.		In-process	HI Carrier Plans SOP updated 9/19 to include additional instructions
HIAG FU 6	All surveys are printed and maintained in hard copy although they are sent electronically and an electronic copy is saved to a shared drive.		In-process	Service Request submitted 9/17/19. Not yet completed. Change to procedure still in progress.
HIAG FU 7	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.		In-process	Service Request submitted 9/17/19. Not yet completed. Change to procedure still in progress.
HIAG FU 8	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		In-process	Service Request submitted 9/17/19. Not yet completed. Change to procedure still in progress.

# IA Follow-ups: External Audits & Reviews

Audit   Project	Finding	Due Date	Status 06/24/2020	Additional Comments
Cash Controls CLA FU 8	The ASRS does not currently have a overall review process prior to approval of changes impacting member payments.	10/11/2019	Completed	
Cash Controls CLA FU 12	The Benefits Advisor who accepts the check enters the check information into the member's POL account as an "event log" item, but no separate log of the checks is maintained.	8/25/2017	Partially Resolved	This involves checks brought in by in-person appointments. ASRS has suspended in-person appointments indefinitely.
Cash Controls CLA FU 13	There is no way to reconcile the checks expected to the checks received, leaving potential for check theft.	8/25/2017	Partially Resolved	This involves checks brought in by in-person appointments. ASRS has suspended in-person appointments indefinitely.
Cash Controls CLA FU 14	No controls exist to monitor the activities of the Accounting System Administrator.	10/11/2019	Completed	The Accounting System Administrator meets with the controller and the general accounting manager to discuss items on the report of the audit log.

# Workplan Update

## REPORTING MODIFICATIONS

- Added a priority (High, Medium and Low) to each potential audit. The priority does not determine audit complexity.
- Added a Target field to quickly identify progress to completion for in-process audits.
- Added highlight on audit exceeding 10 % of planned audit hours
- Added a revised column to highlight adjustments to auditable hours

## AUDIT AND ASSURANCE

- Impact of Covid-19 Pandemic
- Confirmation of Foreign Annuitants has been extended
- Peer Review [QAIP] In-process; Working logistics
- Foreign Annuitants [non-compliant forms]
- GASB findings follow-up
- Delayed in audit starts because of FY 2019 GASB 68 testing

# Audit Plan Revisions

## **ACTUAL HOURS EXCEEDING BUDGETED >10%**

- Complaints Handling
  - Scope expansion: two areas planned; (MSD & Appeals); six added (FSD, DIR [MSS, Legislation], ASD [HR, Procurement])
  - Revise Estimate: did not reassess impact (hours) for added scope & scope creep
- Health Insurance Accounting Group
  - Scope expansion: initial request from FSD
  - New auditor: additional time familiarize
  - Risk Assessment: identified three areas (ER, Other ER [ADDOA], PSPRS])

## **PROJECTED HOURS ADJUSTMENTS**

- External Audit
  - Cash Controls: Modified to Follow-up & Gap Analysis
  - Pen Test: Not scheduled to FY2021
  - Security Risk Assessment: Modified to Follow-up & Gap Analysis
- Internal Audit
  - Audit plan focus on completion of High Priority audits
  - 2 ½ audits remain
  - More hours towards pandemic impacts and forward looking activities

# Budget/Hours Allocation

Audit/Audit-Related as of 6/24/2020	Priority	HOURS			
		Budgeted	Revised	Actual	Utilized <sup>1</sup>
GASB 68 Testing FY2020	▶	320		248	78%
Foreign annuitants	▶	200		120	60%
Internal Quality Assurance Review (QAIP)	▶	160		120	75%
IRM tool	▶	200		180	90%
Health Insurance Accounting Group (HIAG)	▶	300		350	117%
HIAG - Other Employers	▶	160		160	100%
HIAG - PSPRS	▶	100	140	120	86%
GASB 68 Testing FY 2019	▶	400		308	77%
Management Fees (Investment)	▶	320		300	94%
Shift to cloud	▶	240		95	40%
Accuracy of Data - Membership Accounting	▶	200		158	79%
Security: Data/Information [controls]	▶	200			
Complaints Handling	▶	120		243	202%
Access Management	▶	120			
Employer Relations: Assessment	▶	200			
Data Accuracy: survivor beneficiaries	▶	120			
Data Accuracy: 100+ years old annuitants	▶	120			
Risk Management [program assessment]	▶	200			
Cash Controls Follow-up	▶	80		88	110%
Security Risk Assessment Review	▶	40			
Cash Controls Audit: System-level	▶	120	40	30	25%
In-House Disbursements – Check printing /Other	▶	160	20		
Cash Controls Audit: Process-level	▶	280	20	15	5%
Network Penetration Tests	▶	40			

Target	Status	Estimated		Comments
		End Date		
	Completed	1Q		Final walkthru with CLA 4Q
▲	In-progress	4Q		Delayed due to covid-19 pandemic
▲	In-progress	4Q		Docs updated; peer view in process
	Completed	3Q		
	Completed	2Q		Scope expanded; new Auditor
	Completed	3Q		Scope expanded; pending retirement
	On-hold	4Q		Scope expanded; pending retirement
	Completed	2Q		
	Completed	3Q		Pending IMD review
	On-hold	3Q		Delayed; auditor out-of-office
▲	In-progress	4Q		
	Not-Started	4Q		
	Completed	3Q		Scope expanded; hours not adjusted
	Not-Started	4Q		
	On-hold	4Q		Deferred due to covid-19 pandemic
	Completed	3Q		
	Not-Started	4Q		External: follow up
	On-hold	4Q		Pending sync w/ CLA
	On-hold	4Q		Pending sync w/ CLA
	On-hold	4Q		Pending sync w/ CLA
	On-hold	4Q		External: not till 2021

**Total Hours**

4400   3960   2535

**Notes:**  
<sup>1</sup> Provide an explanation of actual hours that exceed budget by more than 10%  
 External assessment; IA gap analysis & followup  
 Carryover audits FY 2019

Status	Projects
Not-Started	6
In-progress	3
Completed	8
On-Hold	7

Priority	Projects	%Complete
High ▶	11	64%
Med ▶	3	33%
Low ▶	10	0%
Revised	4	17%

# Agenda Item #4

**Investment  
Management Fees  
Audit Report**

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

**INTERNAL AUDIT**

**AUDIT REPORT**

**INVESTMENT MANAGEMENT FEES**

**MARCH 26, 2020**

**ARIZONA STATE RETIREMENT SYSTEM**  
**INVESTMENT MANAGEMENT FEES**  
**MARCH 2020**

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**Purpose**

We completed our audit of Investment Management Fees at the Arizona State Retirement System (ASRS) on March 5, 2020. This report provides a summary of results, observations and conclusions.

**Objectives**

The audit objectives were to determine whether investment management fees paid to public and private investment managers are calculated and charged properly to the ASRS in accordance with the relevant agreement provisions, offsets and credits applied are complete and timely, and existing controls are adequate.

**Background**

Since 2006, the ASRS has been investing in limited partner agreements (a.k.a. alternative investments) and currently as of November 2018, the ASRS has approximately 216 agreements/accounts. Per the ASRS 2018 CAFR, total management fees and recognized performance fees such as carried interest and incentive paid in fiscal 2018 totaled approximately \$429 million<sup>1</sup> of which \$411 million were paid to private managers.

**Scope**

The scope of the audit began with an examination of sampled LPA agreements (Fee Structure) is FY 2018. Since ASRS terminated most public managers in 2017/2018, the scope for examining public manager's fees is FY 2016.

The audit was conducted using a judgmental sample covering the following:

- Farmland/Infrastructure
- Opportunistic Debt/Special Situation
- Private Debt
- Private Equity (Large Buyout, Energy, Mega Buyout, and Distressed)

Additionally to examining the method of and calculating management fees, we reviewed internal Investment Management policies, procedures, and obtained guidance related to internal control risks from IMD compliance.

**Conclusion**

Overall, the process for managing and reporting IMD management fees complies with Arizona State requirements. The methodology utilized is compliant with current industry standards as established by the Committee of Sponsoring Organizations (COSO) of the Treadway

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<sup>1</sup> ASRS 2018 CAFR, pg. 86.

**ARIZONA STATE RETIREMENT SYSTEM**  
**INVESTMENT MANAGEMENT FEES**  
**MARCH 2020**

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Commission's Enterprise Risk Management – Integrated Framework: Executive Summary  
Framework and Internal Control – Integrated Framework: Framework and Appendices.

**Auditor Comments/Observations**

This audit examined the ASRS process and standard operating procedures regarding the process of monitoring investment managers investment managers with respect to management fees, the adequacy of the existing controls at the ASRS level (IMD/FSD) and extended to third party consultants as applicable, and how tightly controlled is the process at the consultants' level.

**Internal Audit Opinion**

The process of determining management fees at the public managers' level is a straight forward process. However, at the private managers' level, it is indeed more complicated and involves a variety of ways of reporting that can be both time and efforts consuming process. IA performed tests of the existing systems, spreadsheets, vendor invoice statements and other supplemental materials to provide sufficient evidence that calculations were performed appropriately, controls were in place and being monitored.

**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.

**Some of the tests performed were:**

- Reviewed the LPA and obtained an understanding of the GP's policy on carry interest and the types of items included in the fees, and other items considered as offsets/credits to management fees per the LPA provisions.
- Reviewed the LPA and obtained an understanding of the GP's process of identifying, recording, and applying fees, carry interest, offsets/credits. Looked for incorrect amount of management fees, carry interest, offsets/credits applied or not applied accurately. The error tolerance threshold was set at 3-5 % from the amount that should have been charged.
- Recalculated fees as stated in the initial LPA provisions (testing initially for FY 2018), reviewed on a sample basis capital account statements, fees determined by worksheets (@GPs), fees validated by worksheets (@Consultants), State Street authorization forms and any other relevant docs at the custody bank level.
- For public managers, tested IMD spreadsheets vs. FSD recorded transactions for FY 2016.
- Selected sample management fees charged to ASRS, traced them to manager's worksheets and tested whether the amount charged to ASRS is accurate.

**ARIZONA STATE RETIREMENT SYSTEM  
INVESTMENT MANAGEMENT FEES  
MARCH 2020**

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- Selected sample offsets and credits applied to management fees charged to ASRS, traced them to manager's worksheets and tested whether the amount applied to ASRS is accurate.
- Reviewed the GP's Quality Assurance workflow for accuracy of tracking and allocating fees, offsets and credits to management fees calculations.
- Ascertained testing results after completion of the testing phase and tracked final numbers to initial agreements provisions.

# Agenda Item #5

## 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 N. Rozen, Chief of Administrative Services  
Mr. Chris Gustafson, Procurement and Budget Program Manager  
Ms. M. Harrison, Budget Manager  
Ms. Kerry White, Assistant Chief Investment Officer

**DATE:** June 26, 2020

**RE:** **Agenda Item #5:** Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including:

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

### Purpose

To review the ASRS appropriated and continuously appropriated budgets and the ASRS administrative and investment spending plans for fiscal years (FY) 2021 and 2022.

### Recommendation

For agenda item 5.b, staff recommends that the OALC 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.

## ASRS Budget Process

The ASRS vision includes being a leader in the area of operational effectiveness, and our values describe the culture we believe is necessary to achieve that vision. Through a formalized budget process, and in partnership with the executive and legislative branches, the ASRS historically has been able to develop and implement fiscally responsible spending plans that are flexible and support key agency strategic objectives and priorities as well as reflect a commitment to achieving efficiencies through maximizing resources and constraining costs.

Both the vision and the values serve as guideposts to the ASRS Strategic Plan, which establishes priorities, goals, and key performance indicators (KPIs) in support of overall purpose and mission. In accordance with Strategic Priority #4 – Optimize Operational Effectiveness, during the last three fiscal years the ASRS looked for targeted reductions to achieve budget and staffing goals.

As a result of strategic planning, the agency will exceed a Key Performance Indicator (KPI) by June 30, 2020 to reduce its base administrative expenses by 3%, while staying within its risk tolerance for overall spending. Overall spending includes special projects and one-time expenditures such as external consulting services for specialized Requests For Proposals; external consulting services associated with strengthening our Data Security posture and systems, the Oracle Modernization Technology project and other technology development projects and upgrades.

Appropriation Category	Base Administrative Budget Actual and Projected Spend Dollars in Thousands			Total Administrative Budget Projected Spend Dollars in Thousands		
	FY 2017	FY 2020	% Change	FY 2019	FY 2020	% Change
PS/ERE	\$ 17,938.5	\$ 17,898.7	-0.2%	\$ 19,209.2	\$ 19,076.0	-0.7%
P & O Services	6,078.4	4,185.8	-31.1%	5,356.7	5,481.2	2.3%
Travel	56.7	40.0	-29.5%	52.5	40.0	-23.8%
OOE	4,226.7	4,751.0	12.4%	4,723.3	4,838.6	2.4%
Equipment	221.6	312.0	40.8%	164.7	312.0	89.4%
<b>Total</b>	<b>\$ 28,521.9</b>	<b>\$ 27,187.5</b>	<b>-4.68%</b>	<b>\$ 29,506.4</b>	<b>\$ 29,747.8</b>	<b>0.82%</b>

*KPI - Percent reduction in base administrative expenses from July 1, 2017 to June 30, 2020 (excluding special line item expenditures)*

*Standard and Risk Tolerance = -3.0%*

*KPI - Total annual administrative expense variance (including special line item expenditures for service/security enhancements and anticipated cost reductions)*

*Standard = -1.5% Risk Tolerance = +3.0%*

The ASRS is focused on continuing to manage budgets and implement strategies designed to improve operational effectiveness and/or make the ASRS more cost effective (Goal #7) – with an objective of remaining relatively flat in base administrative expenditures over the next several fiscal years.

Information technology provides the framework for the ASRS business model. As the landscape continues to change and gain sophistication, IT organization, skills, processes, and tools, particularly as they relate to security levels and risk mitigation, need to continue to progress to effectively support and align business and service requirements.

The ASRS FY 2021 and FY 2022 administrative spending plans support system and technology modernizations and re-engineering of processes, with the goal of avoiding future costs associated with more costly transactions and processes.

## FY 2021 Spending Plans

### FY 2021 Administrative Spending Plan

In FY 2021, the ASRS will continue to invest in information technology applications development and enhancements. The following projects are currently in progress and have been reviewed previously by the OALC and the ASRS Board of Trustees:

- 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 or Oracle Forms and Reports Modernization project – to achieve a standards-based set of technologies by re-engineering business process to increase productivity, reduce costs, mitigate risks, and improve member service. FY 2021 represents the final year of this project.
- Manual Disbursements and Large projects – to provide enhancements to processes and systems related to pension payroll and disbursements to improve security, service, and performance.  
In FY 2021, a dedicated project team will complete the Manual Disbursements project, which will create a systematic preventative review workflow for the manual change process of payment amounts and payment methods to mitigate the risk of fraudulent information. Then, work will commence on projects such as automating complex forfeitures and auditing LTD service.
- Information Protection and Security (IPS) 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.
- Payroll Calculation project - to update and re-engineer the pension payroll calculation coding to achieve efficiency in producing timely and accurate payments.

See Attachments A and B for a summary and associated detail of the ASRS administrative spending plan for FY 2021.

### **FY 2021 Investment Spending Plan**

The ASRS FY 2021 investment spending plan includes expenditures for the following in order to meet investment objectives:

#### *Internal investment management*

- ASRS Investment Management Division (IMD) staff base salaries and employer-paid expenses (benefits and payroll taxes), travel, education and training, rent, and other operational costs.

#### *External investment management*

- Public Markets
  - Investment management fees. The majority of quarterly investment management fees are calculated based on the market value of the investments, using the assumption of a 7.5% annual rate of return less estimated net cash flows of 2.5%. Accordingly, the fees are directly correlated with both investment performance as well as net cash flows.
  - Transactional and other fees include foreign taxes and commissions on derivatives and other incidental costs.
- Private Markets - Private and Opportunistic Equity, Real Estate, Farmland, Infrastructure, and Private and Opportunistic Debt
  - Investment management fees. These fees are calculated based on the percentage of committed capital to the program. These fees are correlated to capital commitments in the program and are calculated on a cash basis.
  - Performance incentive and other fees include performance incentives and carried interest, which are only paid if earned - upon successful performance of the manager after other return criteria are met – or incurred, and other contractually agreed-upon fees and expenses. Due to the nature of the investments and contingent variables, estimated annual performance incentive and other fees are not projected and are only reported, on a cash basis, when

identified and paid.

**Consulting fees**

- Investment-related consulting and legal fees, electronic information services and subscriptions, custodial banking administrative fees, and external auditing service fees.

See Attachment C for a summary and associated detail of the ASRS investment spending plan.

**FY 2022 Appropriated Budget Request and Spending Plans**

**FY 2022 Administrative Spending Plan and Budget Request**

In FY 2022, the ASRS will continue to work on the technology projects already identified: Information Protection and Security, Payroll Calculation, and other pension and disbursements enhancements.

However, in FY 2022 the ASRS must also complete a required migration to the cloud, upgrade an essential system, and implement a critical technology solution to further safeguard data. The costs associated with these responsibilities necessitates a budget request for an increase in base operating appropriations totaling \$775,000 above the FY 2021 appropriations.

Cloud Migration

In 2019, the Arizona Department of Administration (ADOA) Strategic Enterprise Technology Office (ASET) implemented a Cloud First policy. This initiative requires the use of cloud technologies for infrastructure, platforms, and software. In FY 2022, the ASRS will migrate its infrastructure for data, systems, servers, and processes from its current physical data center to a cloud environment.

- One-Time Cloud Migration - transitioning to the cloud will require **\$225,000** for external consulting resources to successfully manage and complete the migration.

In addition to deployment costs, the database services, network connectivity, storage, backup and other utility management costs will be an ongoing expense to the ASRS.

	Request Details	
	FY 2022 Budget Request	FY 2023 (anticipated costs)
One-Time Cloud Migration	\$ 225,000	\$ -
Ongoing Cloud Costs	\$ 300,000	\$ 730,000
FileNet Upgrade	\$ 150,000	\$ -
Data Subsetting	\$ 100,000	\$ 25,000
<b>Increase Request</b>	<b>\$ 775,000</b>	<b>\$ 755,000</b>
FY 2021 Base Operating Appropriations	\$ 22,394,000	
<b>FY 2022 Base Operating Appropriations Request</b>	<b>\$ 23,169,000</b>	
Long Term Disability Appropriations	\$ 1,800,000	
<b>Total FY 2022 Request</b>	<b>\$ 24,969,000</b>	

- Ongoing Cloud Costs - cloud services will require **\$300,000** in FY 2022. This amount represents costs associated with an incremental presence in the cloud and a partial year of service as operations are migrated. Once fully transitioned to the cloud in FY 2023, the estimated costs will be \$730,000 annually.

Technology Solutions

- FileNet Upgrade - FileNet is a document management system used to manage records and to streamline and automate business processes by enabling the creation of workflows. The current version of the platform is no longer supported. The ASRS will require **\$150,000** for external resources to successfully configure and implement an upgrade necessary to eliminate any disruption in service.
- Data Subsetting - a software product compatible with core applications to allow teams to utilize only the relevant section of the ASRS's database rather the full system will enable the ASRS to work on improvements without affecting the entire database or creating business disruption; it will also further enhance data security. The initial purchase requires **\$100,000** but subsequent year licensing renewals will be approximately \$25,000.

Because the cost of the FY 2022 increase request is comparable to the estimated ongoing costs of cloud services, the ASRS will request, in its formal budget submission to the Office of the Governor, that the **\$775,000** be considered as a permanent increase in appropriated dollars. Beginning in FY 2023, the ASRS will evaluate the actual experienced costs under the Cloud First policy and determine whether a future request for a decrease in base operating appropriations would be judicious.

*See Attachment D for a summary of the ASRS FY 2022 appropriated budget request, Attachment E for the FY 2022 administrative spending plan and Attachment F for the FY 2022 Budget Request Detail.*

## **FY 2022 Investment Spending Plan**

The ASRS FY 2022 investment spending plan includes the following:

- Continuously appropriated funding for the ASRS investment management program. Expenditures include investment management, consulting, legal, custodial banking, and external financial services fees; data subscriptions and analytics services; and FTE salaries and benefits, as well as travel, education, and other operational costs.

*See Attachment C for a summary and associated detail of the ASRS investment spending plan.*

### Attachments

#### Agenda Item 5.a

- A: FY 2021 ASRS Administrative Spending Plan
- B: Administrative Projects Detail
- C: ASRS Investment Spending Plan

### Agenda Item 5.b

- D: FY 2022 Appropriated Budget Request
- E: FY 2022 ASRS Administrative Spending Plan
- F: FY 2022 Budget Request Detail
- C: ASRS Investment Spending Plan

# Attachment A

**FY 2021  
ASRS Administrative Spending Plan**

	Base Administrative Budget				Administrative Projects Budget					Administrative Budget Total
	Base Operating Appropriations	+ Long Term Disability Appropriations	+ Pension Payroll, Rent, and Actuarial Fees Continuous Appropriations*	= Base Administrative Budget Subtotal	+ Technology Services Improvements Projected Unspent of Base Appropriations	+ Automation Upgrades and Oracle Modernization Special Line Item Appropriations	+ Projected Manual Disbursements & Large Projects Continuous Appropriations	+ Projected IPS PIJ Continuous Appropriations	+ Projected Payroll Calculation PIJ Continuous Appropriations	
<b>Personal Services (PS) and Employee Related Expenses (ERE)</b>										
Salaries and wages, employer costs for benefits, taxes, and ADOA Charges	17,510,500	-	1,253,200	18,763,700	19,000	588,200	154,200	83,000	72,000	19,680,100
Variable Compensation Strategies Plan payments to employees	278,000	-	-	278,000	-	-	-	-	-	278,000
Investment Incentive Compensation Plan payments to investment management employees	313,200	-	-	313,200	-	-	-	-	-	313,200
<b>Total PS and ERE</b>	<b>18,101,700</b>	<b>-</b>	<b>1,253,200</b>	<b>19,354,900</b>	<b>19,000</b>	<b>588,200</b>	<b>154,200</b>	<b>83,000</b>	<b>72,000</b>	<b>20,271,300</b>
<b>Professional and Outside Services (P&amp;O)</b>										
LTD Program administrative costs for claim processing	-	1,500,000	-	1,500,000	-	-	-	-	-	1,500,000
Pension payroll disbursement processing	-	-	45,500	45,500	-	-	-	-	-	45,500
IT development support and business applications	597,200	-	551,800	1,149,000	-	625,000	102,200	233,300	144,400	2,253,900
Actuarial and benefit consulting services	-	-	450,500	450,500	-	-	-	-	-	450,500
IT security professional services and consulting	-	-	188,000	188,000	-	-	-	-	-	188,000
Legal fees for external counsel, attorney general charges/staff, administrative hearing costs	525,100	-	-	525,100	-	-	-	-	-	525,100
Other outside services	16,000	-	35,000	51,000	-	-	-	-	-	51,000
<b>Total P&amp;O</b>	<b>1,138,300</b>	<b>1,500,000</b>	<b>1,270,800</b>	<b>3,909,100</b>	<b>-</b>	<b>625,000</b>	<b>102,200</b>	<b>233,300</b>	<b>144,400</b>	<b>5,014,000</b>
<b>Travel</b>										
In-state travel for member and employer outreach	30,000	-	-	30,000	-	-	-	-	-	30,000
Out-of-state travel to pension industry and educational conferences	49,000	-	-	49,000	-	-	-	-	-	49,000
<b>Total Travel</b>	<b>79,000</b>	<b>-</b>	<b>-</b>	<b>79,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,000</b>
<b>Other Operating Expenditures (OOE)</b>										
Office rent	-	-	1,589,000	1,589,000	-	-	-	-	-	1,589,000
Software licenses and support	1,712,600	-	-	1,712,600	-	-	-	-	-	1,712,600
Telecommunications	360,000	-	-	360,000	-	-	-	-	-	360,000
ADOA Risk Management insurance premiums	149,300	-	133,000	282,300	-	-	-	-	-	282,300
Newsletter printing and mailing	141,600	-	-	141,600	-	-	-	-	-	141,600
Professional dues, subscriptions, and publications	159,900	-	172,000	331,900	-	-	-	-	-	331,900
Postage and delivery	86,000	-	78,000	164,000	-	-	-	-	-	164,000
Education, training and conferences; employee tuition assistance	67,000	-	-	67,000	-	-	-	-	-	67,000
Equipment repair and maintenance	63,300	-	-	63,300	-	-	-	-	-	63,300
Other operating supplies and expenditures	88,000	-	-	88,000	-	-	-	-	-	88,000
<b>Total OOE</b>	<b>2,827,700</b>	<b>-</b>	<b>1,972,000</b>	<b>4,799,700</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,799,700</b>
<b>Equipment</b>										
Agency furniture purchases/replacement	20,000	-	-	20,000	-	-	-	-	-	20,000
Network, server, PC and related devices replacement and additions	208,300	-	-	208,300	-	-	-	80,000	-	288,300
<b>Total Equipment</b>	<b>228,300</b>	<b>-</b>	<b>-</b>	<b>228,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,000</b>	<b>-</b>	<b>308,300</b>
<b>TOTAL</b>	<b>\$ 22,375,000</b>	<b>\$ 1,500,000</b>	<b>\$ 4,496,000</b>	<b>\$ 28,371,000</b>	<b>\$ 19,000</b>	<b>\$ 1,213,200</b>	<b>\$ 256,400</b>	<b>\$ 396,300</b>	<b>\$ 216,400</b>	<b>\$ 30,472,300</b>
<b>APPROPRIATED/BUDGETED AMOUNTS</b>	<b>22,394,000</b>	<b>1,800,000</b>	<b>4,496,000</b>	<b>28,690,000</b>	<b>Projected Unspent</b>	<b>1,213,200</b>	<b>256,400</b>	<b>396,300</b>	<b>216,400</b>	<b>30,772,300</b>
<b>FY 2021 PROJECTED SPEND</b>	<b>22,375,000</b>	<b>1,500,000</b>	<b>4,496,000</b>	<b>28,371,000</b>	<b>19,000</b>	<b>1,213,200</b>	<b>256,400</b>	<b>396,300</b>	<b>216,400</b>	<b>30,472,300</b>
<b>FY 2021 PROJECTED UNSPENT/REVERSION</b>	<b>19,000</b>	<b>300,000</b>	<b>-</b>	<b>319,000</b>	<b>(19,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>300,000</b>

\*Arizona Revised Statute § 38-721(C) lists specific expenditures that are continuously appropriated in the amount deemed necessary by the Board, including rent, actuarial consulting fees, and costs associated with administering retiree pension benefits and disbursements

# Attachment B

# Administrative Projects Detail

FY 2014 to FY 2021											
Automation Upgrades and Oracle Modernization Project Special Line Item Appropriations (Non-Lapsing) (PIJ RT13001: Oracle Forms and Reports Modernization)											
Objective: Evolve legacy technologies to newer open standards-based technologies and re-engineer business processes to increase productivity, reduce costs, mitigate risks, protect and secure information, improve member satisfaction and improve service turnaround time to members.	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Project Totals
<b>APPROPRIATED LINE ITEM BUDGET</b>	1,390,000	4,484,500	2,270,000	2,070,000	-	-	-	-	-	-	10,214,500
<b>ACTUAL AND ESTIMATED SPEND</b>	1,117,400	1,736,200	909,100	1,041,100	1,364,200	1,470,200	1,208,100	1,213,200	-	-	10,059,500

FY 2020 to FY 2021					
Technology Services Improvements Project Base Operating Appropriations (Projected Unspent)					
Objective: To achieve operational efficiency as well as to position the agency for a successful migration to the cloud by implementing continuous integration continuous deployment (CICD) or DevOps methodology, setting up the required infrastructure and environment, and migrating some ASRS data center components to the ADOA Shared Hosted Data Center.					Project Totals
<b>FUNDING PROJECTION</b>	FY 2020	FY 2021	FY 2022	FY 2023	240,500
	221,500	19,000	-	-	
<b>ESTIMATED SPEND</b>	221,500	19,000	-	-	240,500

FY 2020 to FY 2024					
Manual Disbursements and Large Projects Continuous Appropriations					
Objective: Address technology projects related to pension payroll, disbursements, and security. Projects will be identified by ASRS Management as need arises.					Project Totals
<b>FUNDING PROJECTION</b>	FY 2020	FY 2021	FY 2022	FY 2023	1,017,400
	370,100	256,400	390,900	-	
<b>ESTIMATED SPEND</b>	370,100	256,400	390,900	-	1,017,400

FY 2020 to FY 2023					
Information Protection and Security Project Continuous Appropriations (PIJ RT19002: Information Protection and Security)					
Objective: Increase the security of Personally Identifiable Information (PII) and create a more robust data logging system for internal applications.					Project Totals
<b>PIJ FUNDING PROJECTION</b>	FY 2020	FY 2021	FY 2022	FY 2023	2,767,000
	484,200	765,600	758,600	758,600	
<b>ESTIMATED SPEND</b>	104,100	396,300	636,200	1,630,400	2,767,000

FY 2021 to FY 2024				
Payroll Calculation Project Continuous Appropriations (PIJ in process)				
Objective: Update and re-engineer the pension payroll calculation coding to achieve efficiency in producing timely and accurate payments.				Project Totals
<b>PIJ FUNDING PROJECTION</b>	FY 2021	FY 2022	FY 2023	1,302,300
	216,400	650,800	435,100	
<b>ESTIMATED SPEND</b>	216,400	650,800	435,100	1,302,300

# Attachment C

# ASRS Investment Spending Plan

	FY 2021 PROJECTION	FY 2022 PROJECTION
<b>Investment Management Expenses*</b>		
<b>Internal Investment Management</b>		
Salaries and benefits	\$ 1,600,700	\$ 1,560,400
Investment Incentive Compensation Plan (ICP) <sup>1</sup>	\$ 313,200	\$ 340,600
Travel, education and training, rent, and other operational expenses	\$ 120,200	\$ 112,200
<b>Public Markets</b>		
External investment management fees	\$ 3,660,700	\$ 3,389,500
Transactional and other fees	\$ 3,500,000	\$ 3,500,000
<b>Private Markets<sup>2</sup></b>		
Private Equity management fees	\$ 43,700,000	\$ 46,100,000
Real Estate management fees	\$ 13,900,000	\$ 14,000,000
Private Credit management fees	\$ 16,555,800	\$ 14,315,800
<b>Custodial Banking, Security Lending and Master Cash STIF Fees</b>	\$ 4,530,500	\$ 4,530,500
<b>Investment Management Expenses Subtotal</b>	<b>\$ 87,881,100</b>	<b>\$ 87,849,000</b>
<b>Investment Related Consulting, Legal and Information Services Expenses*</b>		
<b>Investment Consulting Services</b>	\$ 8,156,700	\$ 8,164,800
<b>Investment Related Legal Services</b>	\$ 4,410,000	\$ 4,410,000
<b>Investment Electronic Information Services</b>	\$ 3,227,500	\$ 3,382,100
<b>External Financial Consulting Services</b>	\$ 120,000	\$ 120,000
<b>Services Expenses Subtotal</b>	<b>\$ 15,914,200</b>	<b>\$ 16,076,900</b>
<b>Total Continuously Appropriated Investment Expenses</b>	<b>\$ 103,795,300</b>	<b>\$ 103,925,900</b>

<sup>1</sup> The ICP is paid with base operating budget appropriated dollars.

<sup>2</sup> Due to the nature of the investments and contingent variables, estimated annual performance incentive and other certain fees and expenses that are contractually agreed upon are not projected and are only reported, on a cash basis, when identified and paid. The ASRS has paid approximately \$71,435,700 in performance incentive and other fees in FY 2020.

\*Arizona Revised Statute § 38-721(C) specific expenditures are continuously appropriated in the amount necessary to meet the Board's investment objectives , including investment management and related consulting fees

# Attachment D

# FY 2022 Appropriated Budget Request

	FY 2020 Appropriations	FY 2021 Appropriations	Request FY 2022 Appropriations
Appropriated FTEs	240.9	240.9	240.9
Personal Services & Employee Related Expenditures	\$ 18,346,900	\$ 18,346,900	\$ 18,346,900
Professional and Outside Services	\$ 1,255,400	\$ 1,255,400	\$ 1,630,400
Travel - In State	\$ 30,000	\$ 30,000	\$ 30,000
Travel - Out of State	\$ 49,000	\$ 49,000	\$ 49,000
Other Operating Expenditures	\$ 2,323,200	\$ 2,323,200	\$ 2,723,200
Equipment	\$ 389,500	\$ 389,500	\$ 389,500
<b>Base Operating Budget Subtotal</b>	<b>\$ 22,394,000</b>	<b>\$ 22,394,000</b>	<b>\$ 23,169,000</b>
Long Term Disability Program Administration (LTD)	\$ 1,800,000	\$ 1,800,000	\$ 1,800,000
<b>Total Appropriated Operating Budget</b>	<b>\$ 24,194,000</b>	<b>\$ 24,194,000</b>	<b>\$ 24,969,000</b>
<b>Total Appropriated Budget</b>	<b>\$ 24,194,000</b>	<b>\$ 24,194,000</b>	<b>\$ 24,969,000</b>

	FY 2021		FY 2022	
	Change relative to FY 2020 Total Appropriated Budget		Change relative to FY 2021 Total Appropriated Budget	
FY 2022 - Statewide Adjustments* (increase in retirement, IT pro rata, and health insurance employer costs)	\$ -	0.0%	\$ -	0.0%
FY 2022 - Cloud Migration Implementation and Maintenance Request	\$ -	0.0%	\$ 775,000	3.2%
<b>Subtotals</b>	\$ -	0.0%	\$ 775,000	3.2%

\*-Statewide adjustments have not been released as of the publication of these documents.

# Attachment E

**FY 2022  
ASRS Administrative Spending Plan**

	Base Administrative Budget			Base Administrative Budget Subtotal	Administrative Projects Budget			Administrative Budget Total
	Base Operating Appropriations	Long Term Disability Appropriations	Pension Payroll, Rent, and Actuarial Fees Continuous Appropriations*		Projected Large Projects Continuous Appropriations	Projected IPS PIJ Continuous Appropriations	Projected Payroll Calculation PIJ Continuous Appropriations	
<b>Personal Services (PS) and Employee Related Expenses (ERE)</b>								
Salaries and wages, employer costs for benefits, taxes, and ADOA Charges	17,790,300	-	951,800	18,742,100	237,400	165,900	217,500	19,362,900
Variable Compensation Strategies Plan payments to employees	282,200	-	-	282,200	-	-	-	282,200
Investment Incentive Compensation Plan payments to investment management employees	340,600	-	-	340,600	-	-	-	340,600
<b>Total PS and ERE</b>	<b>18,413,100</b>	<b>-</b>	<b>951,800</b>	<b>19,364,900</b>	<b>237,400</b>	<b>165,900</b>	<b>217,500</b>	<b>19,985,700</b>
<b>Professional and Outside Services (P&amp;O)</b>								
LTD Program administrative costs for claim processing	-	1,600,000	-	1,600,000	-	-	-	1,600,000
Pension payroll disbursement processing	-	-	45,500	45,500	-	-	-	45,500
IT development support and business applications	704,600	-	471,600	1,176,200	153,500	470,300	433,300	2,233,300
Actuarial and benefit consulting services	-	-	450,500	450,500	-	-	-	450,500
IT security professional services and consulting	-	-	188,000	188,000	-	-	-	188,000
Legal fees for external counsel, attorney general charges/staff, administrative hearing costs	265,000	-	-	265,000	-	-	-	265,000
Other outside services	16,000	-	35,000	51,000	-	-	-	51,000
<b>Total P&amp;O</b>	<b>985,600</b>	<b>1,600,000</b>	<b>1,190,600</b>	<b>3,776,200</b>	<b>153,500</b>	<b>470,300</b>	<b>433,300</b>	<b>4,833,300</b>
<b>Travel</b>								
In-state travel for member and employer outreach	30,000	-	-	30,000	-	-	-	30,000
Out-of-state travel to pension industry and educational conferences	49,000	-	-	49,000	-	-	-	49,000
<b>Total Travel</b>	<b>79,000</b>	<b>-</b>	<b>-</b>	<b>79,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,000</b>
<b>Other Operating Expenditures (OOE)</b>								
Office rent	-	-	1,624,000	1,624,000	-	-	-	1,624,000
Software licenses and support	2,062,700	-	-	2,062,700	-	-	-	2,062,700
Telecommunications	468,000	-	-	468,000	-	-	-	468,000
ADOA Risk Management insurance premiums	149,300	-	133,000	282,300	-	-	-	282,300
Newsletter printing and mailing	141,600	-	-	141,600	-	-	-	141,600
Professional dues, subscriptions, and publications	259,900	-	172,000	431,900	-	-	-	431,900
Postage and delivery	86,000	-	78,000	164,000	-	-	-	164,000
Education, training and conferences; employee tuition assistance	67,000	-	-	67,000	-	-	-	67,000
Equipment repair and maintenance	63,300	-	-	63,300	-	-	-	63,300
Other operating supplies and expenditures	93,500	-	-	93,500	-	-	-	93,500
<b>Total OOE</b>	<b>3,391,300</b>	<b>-</b>	<b>2,007,000</b>	<b>5,398,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,398,300</b>
<b>Equipment</b>								
Agency furniture purchases/replacement	50,000	-	-	50,000	-	-	-	50,000
Network, server, PC and related devices replacement and additions	250,000	-	-	250,000	-	-	-	250,000
<b>Total Equipment</b>	<b>300,000</b>	<b>-</b>	<b>-</b>	<b>300,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>300,000</b>
<b>TOTAL</b>	<b>\$ 23,169,000</b>	<b>\$ 1,600,000</b>	<b>\$ 4,149,400</b>	<b>\$ 28,918,400</b>	<b>\$ 390,900</b>	<b>\$ 636,200</b>	<b>\$ 650,800</b>	<b>\$ 30,596,300</b>
<b>APPROPRIATED/BUDGETED AMOUNTS</b>	<b>23,169,000</b>	<b>1,800,000</b>	<b>4,149,400</b>	<b>29,118,400</b>	<b>390,900</b>	<b>636,200</b>	<b>650,800</b>	<b>30,796,300</b>
<b>FY 2021 PROJECTED SPEND</b>	<b>23,169,000</b>	<b>1,600,000</b>	<b>4,149,400</b>	<b>28,918,400</b>	<b>390,900</b>	<b>636,200</b>	<b>650,800</b>	<b>30,596,300</b>
<b>FY 2021 PROJECTED UNSPENT/REVERSION</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200,000</b>

# Attachment F

# FY 2022

## Appropriated Budget Request Detail

	Base Operating Appropriations	+	FY 22 One-Time Costs Cloud Migration	+	FY 22 Cloud Migration Ongoing Costs	+	FY22 FileNet Upgrade	+	FY 22 Data Subsetting	=	Base Operating with Request
<b><u>Personal Services (PS) and Employee Related Expenses (ERE)</u></b>											
Salaries and wages, employer costs for benefits, taxes, and ADOA Charges	17,790,300										17,790,300
Variable Compensation Strategies Plan payments to employees	282,200										282,200
Investment Incentive Compensation Plan payments to investment management employees	340,600										340,600
<b>Total PS and ERE</b>	<b>18,413,100</b>		-		-		-		-		<b>18,413,100</b>
<b><u>Professional and Outside Services (P&amp;O)</u></b>											
LTD Program administrative costs for claim processing	-										-
Pension payroll disbursement processing	-										-
IT development support and business applications	329,600		225,000				150,000				704,600
Actuarial and benefit consulting services	-										-
IT security professional services and consulting	-										-
Legal fees for external counsel, attorney general charges/staff, administrative hearing costs	265,000										265,000
Other outside services	16,000										16,000
<b>Total P&amp;O</b>	<b>610,600</b>		<b>225,000</b>		-		<b>150,000</b>		-		<b>985,600</b>
<b><u>Travel</u></b>											
In-state travel for member and employer outreach	30,000										30,000
Out-of-state travel to pension industry and educational conferences	49,000										49,000
<b>Total Travel</b>	<b>79,000</b>		-		-		-		-		<b>79,000</b>
<b><u>Other Operating Expenditures (OOE)</u></b>											
Office rent	-										-
Software licenses and support	1,762,700			300,000							2,062,700
Telecommunications	468,000										468,000
ADOA Risk Management insurance premiums	149,300										149,300
Newsletter printing and mailing	141,600										141,600
Professional dues, subscriptions, and publications	159,900							100,000			259,900
Postage and delivery	86,000										86,000
Education, training and conferences; employee tuition assistance	67,000										67,000
Equipment repair and maintenance	63,300										63,300
Other operating supplies and expenditures	93,500										93,500
<b>Total OOE</b>	<b>2,991,300</b>		-		<b>300,000</b>		-		<b>100,000</b>		<b>3,391,300</b>
<b><u>Equipment</u></b>											
Agency furniture purchases/replacement	50,000										50,000
Network, server, PC and related devices replacement and additions	250,000										250,000
<b>Total Equipment</b>	<b>300,000</b>		-		-		-		-		<b>300,000</b>
<b>TOTAL</b>	<b>\$ 22,394,000</b>		<b>\$ 225,000</b>		<b>\$ 300,000</b>		<b>\$ 150,000</b>		<b>\$ 100,000</b>		<b>\$ 23,169,000</b>

**Note: There are no  
materials for Agenda  
Items #6 - 8**

# Agenda Item #9

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

# Agenda Item #10

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## MEMORANDUM

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**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. Jeff Hickman, Information Security Officer (ISO)

**DATE:** June 25, 2020

**RE:** **Agenda Item #10** ASRS Information Security Program Update

### **Purpose**

To provide an update to the OALC on Information Security Program activities.

### **Recommendation**

Information item only; no action required.

### **Background**

The ASRS maintains significant amounts of personally identifiable information to conduct financial transactions, initiate long-term disability benefits, establish health care coverage in retirement and provide survivor benefits on behalf of our members. With the rise of digital technology, complex connected systems, and the internet, protecting this information and the systems that store it has become more challenging and a preeminent agency priority.

This quarter's Information Security Program update will consist of three parts: a brief Information Security Program update describing the status of ongoing Information Security tasks, presentation of the results of our annual Information Risk Assessment and our updated Plan of Action and Milestone (POAM) document.

Each year we perform an Information Risk Assessment that starts with a review of the Information Security Assets that were identified in the previous year's assessment. For each of our information assets, we met with our business area and technology stakeholders to discuss all aspects of how each information asset is used and managed by the ASRS. The information obtained in these interviews was used to populate the Clearwater Compliance IRM software by Mr. Craig Clinton, Information Security Engineer and Mr. Henry Sprafkin, Clearwater Principal Consultant. The risks that apply to our information assets were identified by the software using its built-in database of threat sources, threat events and vulnerabilities. Then, using what was learned from our meetings, and guided by knowledge and experience, Mr. Clinton and Mr. Sprafkin assigned Likelihood and Risk Impact values to each of the risks. A summary of the results of this work is presented in the *ASRS Information Risk Assessment Report 2020*.

OALC ASRS Security Program Update  
July 8, 2020

We will also briefly discuss our next steps including the Risk Response Workshop and the Information Risk Management Maturity Assessment; both will take place this summer.

Attachments: ASRS Information Risk Assessment Report 2020  
ASRS Information Security OALC Presentation 072020  
ASRS Plan of Action and Milestones (POAM) 072020



# ASRS Information Risk Assessment Report

**Note: Confidential  
materials were  
provided to the  
Committee and not  
included in this book.**

# ASRS Information Security Program Presentation

**Note: Confidential  
materials were  
provided to the  
Committee and not  
included in this book.**

# ASRS Plan of Action and Milestones (POAM)

**Note: Confidential  
materials were  
provided to the  
Committee and not  
included in this book.**