



# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*Paul Matson*  
Director

## AGENDA

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

14<sup>th</sup> Floor Conference Room  
3300 North Central Avenue  
Phoenix, AZ 85012

July 14, 2015  
10:30 a.m. Arizona Time

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Operations and Audit Committee (OAC) and to the general public that the ASRS OAC will hold a meeting open to the public on Tuesday, July 14, 2015, beginning at 10:30 a.m. Arizona Time 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 OAC; 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 OAC 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 7660 E. Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks ..... Mr. Jeff Tyne  
Operations and Audit Committee Chair
2. Approval of the Minutes of the May 12, 2015 Public Meeting and Executive Session and the June 9, 2015 Public Meeting of the OAC..... Mr. Jeff Tyne
3. Presentation, Discussion and Appropriate Action Regarding the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plans for Fiscal Years (FY) 2015 - 2017..... Mr. Anthony Guarino

Deputy Director and Chief Operations Officer

.....Ms. Martha Rozen  
Assistant Director, Administrative Support Services  
.....Mr. Russ Levine  
Procurement and Budget Manager

4. Presentation, Discussion and Appropriate Action Regarding the ASRS Compensation Strategies and Staffing Conditions for Fiscal Year 2015..... Mr. Anthony Guarino  
.....Ms. Martha Rozen

*Regarding the following agenda item, pursuant to A.R.S. § 38-431.03(A)(2), notice is hereby given to Trustees of the ASRS Board and the general public that the ASRS Board 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.*

5. Review of Recently Conducted Audits
- Mingus UHSD – Employer Audit
  - Paramount Education Studies, Inc. – Employer Audit
  - Accelerated Learning Center – Employer Audit
  - ASRS Data Security – ASRS Processes

..... Mr. Anthony Guarino  
..... Mr. Bernard Glick  
Chief Internal Auditor

6. Presentation, Discussion and Appropriate Action Regarding the Internal Audit Quarterly Update ..... Mr. Anthony Guarino  
..... Mr. Bernard Glick

7. Requests for Future Agenda Items..... Mr. Jeff Tyne  
..... Mr. Anthony Guarino

8. Call to the Public ..... Mr. Jeff Tyne

Those wishing to address the ASRS Committee 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(G) 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.

9. Adjournment of the OAC

A copy of the agenda background material provided to the OAC 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 7660 East Broadway Boulevard, Suite 108, 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/web/BoardCommittees.do>) 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 July 7, 2015

ARIZONA STATE RETIREMENT SYSTEM

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Melanie Alexander  
Committee Administrator

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Anthony Guarino  
Deputy Director and Chief Operations Officer



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

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

HELD ON  
Tuesday, May 12, 2015  
10:30 A.M., Arizona Time

The Operations and Audit Committee (OAC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jeff Tyne, Chair, called the meeting to order at 10:30 A.M.

### 1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jeff Tyne, Chair  
Dr. Richard Jacob

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

### 2. Approval of the March 10, 2015 Minutes of the OAC Public Meeting

**Motion:** Dr. Richard Jacob moved to approve the minutes of the March 10, 2015 OAC meetings. Mr. Jeff Tyne seconded the motion.

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

### 3. Presentation, Discussion and Appropriate Action Regarding the Status of the Governmental Accounting Standards Board (GASB) 67 & 68 Reporting for Employers

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, provided a brief introduction stating that a major milestone is fast approaching with regard to the GASB 68 roll out. The ASRS is anticipating a reaction from employers to the changes and are preparing to be proactive with regard to the expected negative reactions. Mr. Guarino turned the discussion over to Ms. Nancy Bennett, Chief Financial Officer, who provided the update to the Committee with regard to GASB 67 & 68 changes.

Ms. Bennett advised the Committee the changes to GASB 67 were implemented by the ASRS in its June 30, 2014 financial statements and the GASB 68 changes will be reflected in the ASRS employers' June 30, 2015 financial statements. One of the biggest changes to GASB 68 is employers will find a pension liability reported on their financial statements that has not previously been required. Although this new reported liability is a change in financial accounting requirements rather than financial liabilities, it will likely be perceived as a negative development. There could be negative consequences, such as effects on bond ratings. It may also cause questions about the

merits of defined benefit plans. The ASRS will be providing employers a tool kit with the GASB 68 information that the ASRS thinks will be helpful.

Ms. Bennett reviewed, in depth, the following:

- GASB 67 & 68 Preparation
  - Why the Change?
  - What is Changing?
  - What Have We [ASRS] Been Doing?
- ASRS Recommended
  - Collective Net Pension Liability Calculation
  - Employer Proportionate Share Calculation – ASRS recommendation
- GASB 68
  - Information Provided to Employers by ASRS
  - Example Schedule of Pension Amounts by Employer
  - Example Schedule of Employer Allocations
- Census Data Audit
  - 06/30/14 Measurement Date
- Accounting vs. Funding
  - GASB 68 Methodology
  - ASRS Funding Methodology

Ms. Bennett responded to questions from the Committee, discussed the implementation process, possible outcomes, risks and the ASRS approaches.

#### **4. Presentation, Discussion and Appropriate Action Regarding the ASRS Fiscal Year 2016/2017 Audit Plan**

Mr. Bernard Glick, Chief Internal Auditor, Internal Audit Division (IAD), presented the Audit Plan for the fiscal year 2016/2017 to the Committee. Mr. Glick explained that the plan is based on an ongoing risk assessment that is being conducted by executive and senior management under the oversight of the OAC and in collaboration with the IAD. The plan also includes audits of areas that haven't been audited in the past five years, which will include management/administration fees; procurement and bid process; and web services, social media post implementation. Additionally in the plan are audits of areas requiring annual review due to materiality or governance requirements, which will include Investment Management Division compliance and fraud hotline.

**Motion:** Dr. Richard Jacob moved to accept the Biennial Audit Plan and forward the plan to the full ASRS Board for consideration. Mr. Jeff Tyne seconded the motion.

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

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

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

- **Fort Thomas Unified School District – Employer Audit**

The IAD had four findings from the Fort Thomas Unified School District audit. The employer agreed with the findings and IAD's recommendations.

- **New Retiree and Survivor Benefits – ASRS Processes**

The IAD had three findings from the internal audit. Mr. Glick stated that all the issues have either been resolved or are in the process of being resolved.

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

Mr. Glick presented the Quarterly Internal Audit report. The IAD currently has two audits that have not yet been performed and one that is almost complete. The Data Security audit is approximately 75% complete. Mr. Glick expects the Qualified Domestic Relations Orders (QDRO) audit to be completed by the end of the year but the completion of the Software Licensing audit is unknown at this time. Mr. Glick advised the Committee he has already begun receiving GASB 68 materials for next year and in order for this information to be included on the Comprehensive Annual Financial Report in September, he will need to begin the GASB audit now rather than wait until July when it is typically scheduled.

## **7. Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Dental Benefits Program Request for Proposal (RFP)**

Mr. Patrick Klein, Assistant Director, External Affairs, Ms. Shireen Boone, ADOA, Chief Procurement Officer, and Mr. Russ Levine, Procurement and Budget Manager, were present to address the Committee on this topic and answer any questions. Mr. Klein provided the Committee with a summary to include the following timelines:

- February 23, 2015 – RFP issued to 208 dental providers.
- March 31, 2015 – Four dental providers submitted proposals – Assurant Employee Benefits, Delta Dental of Arizona, Metropolitan Life Insurance Company and United Concordia. All four providers submitted offers for providing indemnity dental plans and one provider submitted an offer for providing a prepaid dental plan.
- Evaluation Committee assembled consisting of staff members and members of the Health Insurance Advisory Committee who assist occasionally with evaluating the types of programs the ASRS offers.
- Four criteria were considered during the evaluation: cost, quality/value of the plan, expertise, experiences and resources provided, and the implementation of the program.
- May 4, 2015 – Best and Final Offers from each provider were provided.

**Motion:** Dr. Richard Jacob moved to go into executive session to discuss confidential information regarding the RFP. Mr. Jeff Tyne seconded the motion.

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

The Committee convened to Executive Session at 11:26 A.M.

The Committee reconvened to Regular Session at 11:51 A.M.

**Motion:** Dr. Richard Jacob moved to accept the recommendation of the Evaluation Committee on the ASRS Retiree Dental Benefits Program Request for Proposals and to move this recommendation to the Board for approval. Mr. Jeff Tyne seconded the motion.

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

## **8. Review, Discussion and Appropriate Action Regarding the ASRS Retiree Health Insurance and Health Benefit Supplement Programs**

Mr. Guarino provided a brief introduction by stating the future and status of health care programs is on the list of strategic objectives for fiscal year 2015 and the ASRS felt it was appropriate to discuss the topic with the Committee prior to being presented to the Board.

Mr. Paul Matson, Director, opened the discussion by stating that this topic cannot be covered in its entirety at this meeting due to time constraints, therefore, the Committee will not be expected to draw any conclusions today. Mr. Matson felt the best approach was to provide the Committee with the background information today, which will enable the Committee to finalize the discussion and make decisions/recommendations at the next OAC meeting. Mr. Matson asked the Committee to consider the following during today's discussion and how the information that Mr. Klein will be presenting fits into one of these four categories:

- Issues
  1. Reaffirm or not the ASRS program goals: Affordability, Accessibility, and Meaningful
  2. Whole Case Underwriting & Resulting Cross Subsidizations: Discuss future direction
  3. Direction of non-Medicare and Medicare coverage
  4. Retrospective Rate Adjustment Agreement Fund: Current balance, utilization options, allocation options

Mr. Klein invited Mr. Tim Upson and Ms. Denise Jewell, Mercer Consultants and Mr. Dan Cadriel of UnitedHealthcare to the table to assist in responding to questions if necessary. Mr. Klein provided the background as follows:

- Programs Offered:
  1. Current ASRS programs offered by coverage: medical, dental, vision, WellCard
  2. Current ASRS programs offered by group: Medicare and non-Medicare programs
  3. Current ASRS program designs: benefits, premiums, and copayments
  4. Current Health Benefit Supplement levels
  5. Current and Projected Funded Status
  6. Current and Projected Contribution Rates
- Landscape & Impacts
  1. Federal Mandated Arizona Exchange: benefit designs and premiums compared to the ASRS program
  2. ADOA Programs: benefit designs and premiums compared to the ASRS program
  3. Marketplace cost trends
  4. Marketplace product development and other dynamics

## **9. Request for Future Agenda Items**

The ASRS Retiree Health Insurance and Health Benefit Supplement Programs.

## **10. Call to the Public**

There were no members of the public in Phoenix who requested to speak. There were no members of the public in Tucson.

## 11. Adjournment

**Motion:** Dr. Richard Jacob moved to adjourn the meeting at 12:35 p.m. Mr. Jeff Tyne seconded the motion.

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

Respectfully Submitted,

ARIZONA STATE RETIREMENT SYSTEM

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Melanie Alexander  
Committee Administrator

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Anthony Guarino  
Deputy Director and Chief Operations Officer



# ARIZONA STATE RETIREMENT SYSTEM

Paul Matson  
Director

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

HELD ON  
Tuesday, June 9, 2015  
11:00 A.M., Arizona Time

The Operations and Audit Committee (OAC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jeff Tyne, Chair, called the meeting to order at 11:00 A.M.

### 1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jeff Tyne, Chair  
Dr. Richard Jacob

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

*The Tucson office did not connect to the meeting because there were no members of the public present.*

### 2. Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Health Insurance Programs, the Health Benefit Supplement Program and the Retrospective Rate Adjustment Agreement Funds

Mr. Paul Matson, Director, provided an introduction from a staff perspective regarding what the ASRS hopes to accomplish. Mr. Matson identified the four topics to be discussed and the lead personnel assigned to each topic as follows:

- Determine the optimal Strategic Plan goals for the ASRS Health Insurance – Mr. Patrick Klein;
- Determine the optimal application of whole case underwriting and cross-subsidization in setting premiums – Mr. Paul Matson and Mr. Patrick Klein;
- Determine the optimal utilization and allocation options of the Retrospective Rate Adjustment Agreement Fund – Mr. Paul Matson and Mr. Patrick Klein;
- Determine the future direction of Medicare and non-Medicare coverages – Mr. Patrick Klein.

Mr. Matson concluded his introduction by indicating the goal for today's discussion is:

- Possibly conclude whether "accessible, affordable, reliable, and efficiently run" is an appropriate conceptual framework in which to operate; and
- Conclude the discussion on the future direction of Medicare and non-Medicare coverages.

Mr. Matson advised the Committee that staff has draft conceptual models for #2 and #3 above, however, they will likely not be presented to the Committee today. Upon receiving Committee input from today's discussions, the conceptual models will be updated and presented at a future meeting. Mr. Matson turned the discussion over to Mr. Klein. Mr. Klein provided a summary regarding #1, defined accessibility; affordability; reliability; and efficiently run and responded to questions from the Trustees. Mr. Dan Cadriel of UnitedHealthcare (UHC), Mr. Tim Upson and Ms. Denise Jewell, Mercer Consultants, were also present to assist in responding to questions.

Questions raised during this discussion surrounded the frequency of member surveys to determine the level of member satisfaction in the programs offered and whether providers were surveyed. Mr. Cadriel responded by stating that UHC conducts sample surveys annually with its members and indicated that over the last three years the results of the surveys reflect 89% satisfaction. Dr. Jacob expressed the desire to have the survey results presented to the Board regularly. Mr. Matson offered the suggestion that maybe non-members should also be surveyed to find out why they are not on the ASRS program to assist in determining how the ASRS can better its programs. Another question raised for consideration is whether the ASRS wants to be the provider of choice, be a competitive option or an option of last resort.

Mr. Matson introduced #2 stating the factors that need to be considered are: the concept of whole case underwriting vs. partial case underwriting; the magnitude of cross-subsidizing; and what does the ASRS want to subsidize. Mr. Klein reviewed the Rate Analysis Report with the Committee, which was provided by Mercer, to assist in determining options for consideration to balance subsidization. With regard to cross-subsidization, Mr. Upson indicated that each state is different. Mr. Matson requested that Ms. Sara Orozco construct a survey with the National Association of State Retirement Administrators (NASRA) regarding the extent other states cross-subsidize for both Medicare eligible subsidizing non-Medicare and active subsidizing retirees. Mr. Matson also asked Mr. Upson to pull together similar information. Mr. Klein will be working on a proposal of options for the Committee to discuss at the next meeting.

Mr. Matson reviewed #3 and discussed the ASRS Retrospective Rate Agreement funds to consider who the monies are to be distributed to and how to distribute the monies. Some options discussed were: reduce premiums; implement premium holidays; embarking on self-funding; add benefits; and upgrade systems. Mr. Klein expanded on the options Mr. Matson identified for the Committee's consideration and welcomed any additional suggestions the Committee may have to offer.

Mr. Klein provided a brief overview of #4 citing there is no anticipated change in the provision of Medicare plans either from the federal government or the marketplace.

### **3. Request for Future Agenda Items**

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

### **4. Call to the Public**

There were no members of the public in Phoenix who requested to speak.

## 5. Adjournment

**Motion:** Dr. Richard Jacob moved to adjourn the meeting at 12:44 p.m. Mr. Jeff Tyne seconded the motion.

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

Respectfully Submitted,

ARIZONA STATE RETIREMENT SYSTEM

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Melanie Alexander  
Committee Administrator

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Anthony Guarino  
Deputy Director and Chief Operations Officer



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*Paul Matson*  
Director

## MEMORANDUM

**TO:** Mr. Jeff Tyne, Chair, ASRS Operations and Audit Committee (OAC)

**FROM:** Mr. Anthony Guarino, Deputy Director and Chief Operations Officer  
Ms. Martha N. Rozen, Chief of Administrative Services  
Mr. Russ Levine, Procurement and Budget Program Manager

**DATE:** July 7, 2015

**RE:** **Agenda Item #3:** Presentation and Discussion Regarding the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plans for Fiscal Years (FY) 2015 - 2017

### Purpose

To review the ASRS Appropriated Budget and the Estimated Administrative and Investment Spending Plans for Fiscal Years (FY) 2015 - 2017.

### Recommendation

Informational only, no action required.

### Background

Effective budget planning and administration is another important cornerstone of the ASRS Strategic Planning model. Strategically, the ASRS aims to be a high service, low cost pension administrator. The ASRS expenditures for FY 2015 were structured to continue implementation of a service paradigm that reduces the need for manual transactions and physical contacts and focuses on moving member transactions to web-based self-service to further reduce our cost per transaction.

The spending plans for FYs 2016 and 2017 further support system and technology modernizations and re-engineering of processes, the goal of which is to avoid future costs associated with more costly transactions and processes. Specifically, in FY 2016, the ASRS appropriated budget and spending plans are designed to include the following:

- Appropriated funding for the Oracle Forms and Reports Modernization project that will allow the ASRS to achieve a standard set of technology for our business infrastructure and create additional efficiencies (\$2,270,000).
- Appropriated funding for a compensation plan focused on rewarding non-investment staff for performance in achieving established goals; adding to plan assets and/or reducing plan liabilities; reducing risk and costs; improving efficiency, productivity, customer service, and the member experience; and migrating members to self-service options, as well as addressing salary levels that are behind the market when compared to other peer organizations (\$750,000).
- Appropriated funding for the ASRS Incentive Compensation Plan (ICP) for Internal Investment Professionals. Incentives earned for FY 2015 performance will be paid during FY 2016 (\$352,500 approximate amount of budget reserved).

- Appropriated funding for three additional FTE positions, external resources, equipment and software to enhance ASRS membership data protection and data security (\$870,800).
- Appropriated funding for one additional FTE position to expand the scope of employer audits in order to meet the revised accounting and financial reporting standard instituted by the Governmental Accounting Standards Board (GASB) (\$89,400).
- Continuously appropriated funding for the beginning phase of the ASRS Benefit Disbursement project that will allow the ASRS to reduce the annual costs, over time, for all categories of disbursements. The first year will include FTE time, external resources, and equipment purchases (\$1,096,400).
- Continuously appropriated funding for an additional FTE position in order to meet the increasing complexities of managing and overseeing new and existing asset classes and investment strategies consistent with those in the Board approved ASRS Strategic Asset Allocation Policy. This position will support the Private Markets Investment team and will focus on analysis of new opportunities in the markets, timely fulfillment of required due diligence essential to the investment selection process, and management of appropriate investments deemed critical to the success of the asset class (\$140,000).
- Increased investment continuously appropriated expenditures primarily from an increase in investment management fees, which are due to anticipated growth in investable assets.
  - For public markets, the fees are calculated based on the market value of the investments, using the assumption of an 8% annual rate of return less estimated net cash flows of 2.5%.
  - For private markets, there are two fee components:
    - Investment management fees – These fees are calculated based on the percentage of committed capital to the program, which increases each year based on the pacing plan approved by the Private Markets Investment Committee.
    - Performance incentive and other fees – Performance incentive fees include incentives and carried interest, which are only paid upon successful performance of the manager after other return hurdles are met. Other fees are the ASRS proportional share of the transactional and operational cost of the underlying investment structure, if incurred.

Fees for both public and private markets are correlated to investment performance as well as net cash flows and commitments, respectively.

For FY 2017, while the spending plans for continuously appropriated funding indicate an increase, due to the aforementioned related to investment management fees; the appropriated budget request and related spending plan will actually decrease slightly as one-time costs, planned in FY 2016, are eliminated. Of note in the FY 2017 spending plan is:

- Continuously appropriated funding for the second year of the ASRS Benefit Disbursement project that will allow the ASRS to reduce the annual costs, over time, for all categories of disbursements. FY 2017 will include FTE time, external resources and software licensing costs (\$804,100).

Attachments

- Schedule A: ASRS Total Appropriated Budget Request FY 2017
- Schedule B: FY 2016 ASRS Base Operating Budget Overview
- Schedule C: ASRS Continuously Appropriated Funding Projections
- Schedule D: ASRS Benefit Disbursement Project
- Attachment 1: Project Investment Justification for ASRS Benefit Disbursement Project
- Attachment 2: Benefits Disbursement Project Presentation to Information Technology Authorization Committee (ITAC)
- Schedule E: ASRS Administrative and Investment Spending Estimate FY 2015
- Schedule F: ASRS Administrative and Investment Spending Plan FY 2016
- Schedule G: ASRS Administrative and Investment Spending Plan FY 2017

Appendix: FY 2017 Appropriated Budget Detail

- Page 1: Technology Risk Management Strategies
- Page 2: Internal Audit
- Page 3: Long Term Disability Program Administration
- Page 4: Oracle Forms and Reports Modernization

# Attachments: Schedules A-D

# Total Appropriated Budget Request FY 2017

	FY 2015 Appropriations	FY 2016 Appropriations	Total Request FY 2017 Appropriations
Personal Services & Employee Related Expenditures	17,778,000	18,155,400	18,155,400
External Professional Services	1,079,300	1,292,400	1,292,400
Travel	78,600	79,900	79,900
Other Operating Expenses	2,684,800	2,732,800	2,777,800
Equipment	389,500	651,100	389,500
<b>Base Operating Budget Subtotal</b>	<b>22,010,200</b>	<b>22,911,600</b>	<b>22,695,000</b>
<b>Long Term Disability Program Administration (LTD)</b>	<b>2,800,000</b>	<b>2,800,000</b>	<b>2,800,000</b>
<b>Total Appropriated Operating Budget</b>	<b>24,810,200</b>	<b>25,711,600</b>	<b>25,495,000</b>
<b>Special Line Item Appropriations</b> PIJ: Oracle Forms and Reports (IT Modernization Project)	<b>4,484,500</b>	<b>2,270,000</b>	<b>2,070,000</b>
<b>Total Appropriated Budget</b>	<b>29,294,700</b>	<b>27,981,600</b>	<b>27,565,000</b>

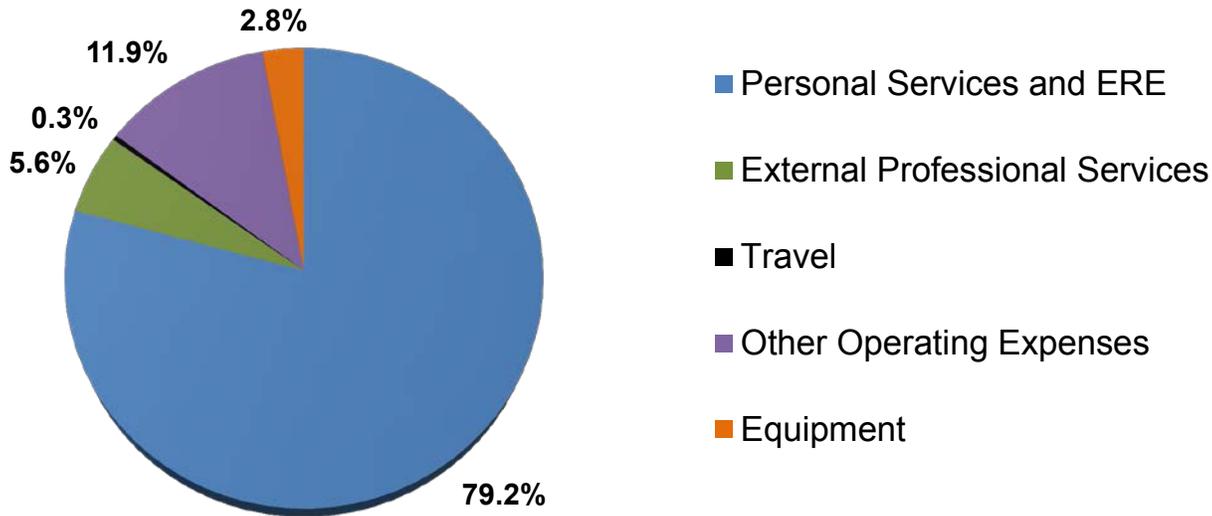
**Changes to Appropriations**

- Technology Risk Management Strategies (3 FTEs, Professional Services, Equipment/Software)
- Internal Audit (1 FTE)
- PIJ: Oracle Forms and Reports (IT Modernization Project)
- Statewide Adjustments (reduction of employer HI costs and increase for use of state accounting system)

Subtotals

FY 2016		FY 2017	
Change relative to FY 2015 Total Appropriated Budget		Change relative to FY 2016 Total Appropriated Budget	
\$ 870,800	2.97%	\$ (209,600)	-0.75%
\$ 89,400	0.31%	\$ (7,000)	-0.03%
\$(2,214,500)	-7.56%	\$ (200,000)	-0.68%
\$ (58,800)	-0.20%	\$ -	0.00%
\$(1,313,100)	-4.48%	\$ (416,600)	-1.46%

# FY 2016 ASRS Base Operating Budget Overview



**Personal Services and Employee Related Expenditures (ERE) \$ 18,155,400**

\*Personal services includes salaries and wages paid to agency employees. Also includes payments for employee leave taken, overtime, leave payouts and Board per diem.

\*Includes annual Variable Compensation Strategies Plan & Investment Incentive Compensation Plan (ICP).

\*Employee Related Expenditures (ERE) – Cost of an employee’s benefit package. ERE includes the following: FICA, Retirement, Worker’s Compensation, Health, Dental, and Life Insurance, Retiree Accumulated Sick Leave charges, Personnel Division charges.

\*Average ASRS ERE Rate is 40% (The percentage that employee related expenditures represents of the agency’s personal services subtotal).

**External Professional Services \$ 1,292,400**

\*Legal services (External legal counsel, Arizona Office of Administrative Hearings fees and staff assigned from Arizona Attorney General’s office)(\$300,000)

\*Technology resources (\$742,400), temporary staffing (\$100,000) and other professional services (\$150,000)

**Travel \$ 79,900**

\*In-state travel for Member and Employer Outreach Teams, staff and Board Trustees (\$53,600)

\*Out-of-state travel (investment related due diligence and educational conferences - \$26,300)

**Other Operating Expenses \$ 2,732,800**

\*Equipment repair and maintenance (\$150,000) and software support and maintenance (\$1,275,000)

\*Printing and mailing annual newsletter (\$150,000) and agency printing and postage (\$145,000)

\*Telecommunications (\$340,000) and other operating expenditures (\$154,400)

\*ADOA Risk Management insurance premiums (\$309,000)

\*Professional dues, books and subscriptions (\$119,400)

\*Education, training and conferences (\$75,000), employee tuition assistance (\$15,000)

**Equipment \$ 651,100**

\*Replacement equipment, furniture, and technology equipment (\$417,500)

\*Security related appliances and software (\$233,600)

**Base Operating Budget Total \$ 22,911,600**

## ASRS Continuously Appropriated Funding Projections (Dollars In Thousands)

	FY 2015 Estimated	FY 2016 Projection	FY 2017 Projection
<b><i>Investment Management Expenses</i></b>			
Custodial Banking, Security Lending and Master Cash STIF Fees	3,077.0	3,077.0	3,077.0
Internal Investment Management (Salaries and Benefits)	1,491.5	1,610.9	1,750.9
<i>-One Additional FTE, Salary and Benefits (Begin FY 2016)</i>		140.0	
<u>Public Markets</u>			
External Investment Management Fees	68,172.0	70,320.8	74,188.4
Transactional and Other Fees	2,000.0	2,109.6	2,225.7
<u>Private Markets</u>			
Private Debt and Equity Management Fees	33,700.0	45,760.0	53,460.0
Private Debt and Equity Performance Incentive and Other Fees	46,000.0	57,200.0	66,825.0
Real Estate, Farmland and Timber and Infrastructure Management Fees	23,000.0	21,435.3	21,435.3
Real Estate, Farmland and Timber and Infrastructure Performance Incentive and Other Fees	33,200.0	26,794.1	26,794.1
Opportunistic Debt and Equity Management Fees	11,300.0	6,300.0	6,400.0
Opportunistic Debt and Equity Performance Incentive and Other Fees	6,100.0	3,150.0	3,200.0
<i>Subtotal Investment Management Expenses</i>	228,040.5	237,897.7	259,356.4
<b><i>Investment Related Consulting, Legal and Information Services</i></b>			
Investment Consulting Services	4,542.0	4,388.5	4,389.3
Investment Related Legal Services	1,075.0	1,075.0	1,075.0
Investment Electronic Information Services	1,700.0	2,000.0	2,000.0
External Financial Consulting Services	75.0	75.0	75.0
<i>Subtotal Investment Related Consulting, Legal and Information Services</i>	7,392.0	7,538.5	7,539.3
<b>Subtotal Investment Continuous Appropriations</b>	235,432.5	245,436.2	266,895.7
Rent	1,505.0	1,505.0	1,505.0
Actuarial Annual Consulting Fees	900.0	900.0	900.0
Actuarial Special Projects (5 Yr. Actuarial Audit, Benefits Consulting Services)	25.0	25.0	25.0
ASRS Benefit Disbursement Project (PIJ)	-	1,096.4	804.1
Retiree Payroll (Disbursement Administration)	1,676.0	1,759.0	1,846.0
Retiree Payroll (Technology Programming/Support)	1,115.0	800.0	800.0
<b>Subtotal Administrative Continuous Appropriations</b>	5,221.0	6,085.4	5,880.1
<b>Continuously Appropriated Funding Totals</b>	<b>240,653.5</b>	<b>251,521.6</b>	<b>272,775.8</b>

**Budget Detail: ASRS Benefit Disbursement Project**

Objective: Development of platform and disbursement-related processes to administer the entire benefit cycle in-house, which includes benefit calculations, electronic payment transmission, printing and mailing paper checks and remittance advices, and tax withholding and reporting.

	Funding Projection for FY 2016	Funding Projection for FY 2017	Funding Projection for FY 2018	Funding Projection for FY 2019	Funding Projection for FY 2020	Project Totals
<b>Personal Services &amp; Employee Related Expenditures</b>	146,000	146,000	149,000	149,000		590,000
Fiscal Yr. FY 16 - FY 19	Description Full-Time Equivalent Resources					
<b>External Professional Services</b>	635,200	622,600	641,300	660,500		2,559,600
Fiscal Yr. FY 16 - FY 19	Description External Development Resources					
<b>Other Operating and Equipment</b>	315,200	35,500	35,500	35,500	35,500	457,200
Fiscal Yr. FY 16 - FY 20	Description Project Equipment/Software, Licensing					
<b>TOTALS - FY 2016 to FY 2020, FUNDING PROJECTION</b>	<b>1,096,400</b>	<b>804,100</b>	<b>825,800</b>	<b>845,000</b>	<b>35,500</b>	<b>3,606,800</b>

# Attachment 1



**ADOA - ASET**

Arizona Strategic Enterprise Technology

**Project Investment Justification**

**Version 01.01**

A Statewide Standard Document for Information Technology Projects

**Project Title: ASRS Benefit Disbursement Project**

<b>Agency Name:</b>	Arizona State Retirement System (ASRS)
<b>Date:</b>	4/6/2015
<b>Agency Contact Name:</b>	Brandon Heathcotte
<b>Agency Contact Phone:</b>	602-240-5344
<b>Agency Contact Email:</b>	brandonh@azasrs.gov

[Hover for Instructions](#)

## I. Management Summary\*

The Director commissioned a study to research whether the benefits disbursement process could be made more cost-effective. The study was commissioned as a result of the yearly Cost Effectiveness Measurement (CEM) pension benefit administration benchmarking study, whose findings indicate the ASRS benefit disbursement costs were 51 percent greater than similar sized U.S. public pension funds within the CEM universe.

The ASRS has participated in the CEM pension benefit administration benchmarking study since 2001. Each year, the ASRS submits data regarding service features, transaction volume, and costs and staffing, broken down by activity, membership, and plan design. CEM compiles the results and provides a report that benchmarks the ASRS against a group of like-sized peers (approximately 15) within the US and also to a larger universe of participants in North America. Specifically, the report compares and contrasts:

- Peer Characteristics
- Service Levels
- Total Costs
- Cost by Activity
- Staff Costs and Productivity
- Transaction Volumes
- Complexity
- IT and Major Projects

ASRS staff conducted a high level analysis of the following areas: risks and risk mitigation strategies, technology, human resources, equipment and physical space, service delivery impacts, return on investment. Based on this research, staff concluded the ASRS would experience both cost and efficiency savings over the medium and long term if the ADOA-approved banking partner, Bank of America (BofA), was used and more back-office, disbursement-related processes were handled internally.

In the current agreement with State Street bank, the bank is responsible for making payments to members, retirees, State and Federal tax authorities and other parties. The bank also does several accounting and bookkeeping processes for the ASRS. These include tax reporting and printing, remittance advice printing and mailing, payment update processing, account reconciliation and general accounting reporting. For all of these processes, the ASRS pays State Street bank.

ASRS Management is looking to reduce costs and improve efficiencies by switching to the ADOA-approved banking partner. BofA will be responsible for payment creation and movement of funds. ASRS will be required to take over more back-office accounting processes and some disbursement-related reconciliation and maintenance. The ASRS will continue to do all pension benefit calculations, new retirement transitions, health insurance premium assessments, calculation of tax implications and beneficiary payment creation.

## II. Project Investment Justification (PIJ) Type\*

Yes  No Is this document being provided for a Pre-PIJ / Assessment phase?

If Yes,

Identify any cost to be incurred during the Assessment phase.	\$0
Based on research done to date, provide a high-level estimate or range of development costs anticipated for the full PIJ.	\$0

Explain:

40T

Yes  No Will a Request for Proposal (RFP) be issued as part of the Pre-PIJ or PIJ?

### III. Business Case

#### **A. Business Problem\***

A February 2012 CEM pension benefit administration benchmarking report indicated that ASRS benefit disbursement costs were 51 percent greater than similar sized U.S. public pension funds within the CEM universe. CEM's report identified the primary reason for the difference in cost to be the ASRS' reliance on a third party to disburse benefits. Since 1999, the ASRS has utilized a third-party vendor to administer the benefit disbursement process. There were a number of reasons the ASRS shifted toward an external vendor: technological concerns associated with Y2K, a desire to mitigate operational risk related to business continuity, and a desire to lessen the agency's need to maintain the equipment and human resources that were necessary to disburse the volume of checks being sent each month. In fiscal year 2013, the ASRS paid over \$1.4 million in fees to a third-party vendor for benefit disbursement services. The majority of peers within the CEM peer universe appear to administer the entire benefit cycle in-house, which includes benefit calculations, electronic payment transmission, printing and mailing paper checks and remittance advices, and tax withholding and reporting. Other retirement systems appear able to perform this service less expensively and without a large commitment of human resources.

#### **B. Proposed Business Solution\***

In 1999, when the benefit disbursement process was outsourced to a 3<sup>rd</sup> party bank, payments were primarily issued via paper check. Today, the majority of payments (99% plus of pension payments and 90% plus of refunds) are made electronically. The ASRS can help to keep volumes manageable for staff by continuing to maximize its use of electronic payments and minimize the volume of printed checks and remittance advices. Bank of America (BoFA), the state's current depository bank, has the capability needed to issue benefit disbursements for the ASRS. The ASRS should be able to utilize the existing state contract, which eliminates the need for the ASRS to procure banking services. Historically, BoFA has offered a pricing structure substantially below what other banks charge for the same services because of the large deposits the state houses with them. Therefore, this document assumes that the ASRS will use BoFA under the existing state contract. In addition to switching banks, ASRS will take over some of the processes done by the current bank. Some of those processes are:

- Payments of taxes to IRS and AZDOR
- Payments of dues and levies to 3<sup>rd</sup> parties
- Printing checks to members, retirees and 3<sup>rd</sup> parties
- Payments to vendors and other 3<sup>rd</sup> parties
- Storing and distribution of 1099/1042 tax data

- Payment of child support garnishments
- Reconciliation processes

**C. Quantified Benefits\***

<input checked="" type="checkbox"/>	Service enhancement
<input type="checkbox"/>	Increased revenue
<input checked="" type="checkbox"/>	Cost reduction
<input type="checkbox"/>	Problem avoidance
<input checked="" type="checkbox"/>	Risk avoidance

Explain:

Service Enhancement

ASRS estimates that taking over many of the benefit disbursement processes from State Street will shorten the number of days required to send disbursement files to the bank in advance of the actual disbursement date (1<sup>st</sup> of the month) by four business days. The reduction comes as a result of eliminating the processes in place related to reconciling agency records to the disbursement bank records and the disbursement bank not having to pass the file on to a third vendor for printing.

Cost Reduction

In fiscal year 2013, the ASRS paid over \$1.4 million in fees to a third party.

FY2013 Costs for Third Party Administration of Disbursements	
State Street Bank-Processing	\$1,263,024
Mellon-Historical Information (for service purchase)	9,250
State Street Bank-Postage	154,108
<b>Total</b>	<b>\$1,426,382</b>

If the ASRS brings the full benefit disbursement process in-house, the ASRS estimates the annual ongoing cost to be significantly lower. There will be a significant up-front investment required in technology enhancements and equipment purchases.

Estimated Annual Costs of Internal Administration of Benefit Disbursements		
Item	Approximate Annual Cost	Comments
Bank of America fees	\$18,635	Provided by BofA
Berwyn	22,000	To identify deceased members (monthly for pensioners/ twice a year for non-retired)
Paper – remittance advices	8,000	For approximately 200,000 remittance advices
Paper – 1099R	6,000	For approximately 150,000 1099's
Paper stock - checks	600	For approximately 10,000 checks
Envelopes	18,000	For approximately 360,000 pieces mailed
Postage	147,600	For approximately 360,000 pieces mailed * .41 =
Printer maintenance fee	18,000	
FTE Cost	100,000	For 2 FTEs (1 each in records management

		and general accounting)
<b>Total</b>	<b>\$338,835</b>	

<b>Total Estimated Annual Savings – Achieved by Insourcing</b>	
	<b>Estimate</b>
Current fees – external vendor	\$1,426,382
Estimated costs – internal disbursements	(-338,835)
<b>Total Annual Savings</b>	<b>\$1,087,547</b>

Risk Avoidance

The charts below identify both new and eliminated risks. The risks are categorized as either implementation risks or operational risks. Mitigation strategies are provided for the additional risks.

<b>Implementation Risks</b>	<b>Mitigation Strategy</b>
Technology resources not available to implement	ASRS Technology Services Division (TSD) priorities will need to be evaluated. The ASRS will coordinate the existing large project and agency projects with this effort. TSD has worked with Senior Management to prioritize development efforts for the agency. A five-year plan has been developed to encompass all agency technology goals.
Complexity factor working with banks, vendors, and the IRS	The agency has experience in implementing large-scale, complex systems. The Agile/Scrum process should be used to reduce the overall project complexity to smaller, simpler mini-projects. Appropriate time must be built into the schedule to ensure successful completion.
Requirements are not fully defined or are missed	Detailed requirements will not be known until development has begun. Agile/Scrum development recommends that detailed analysis is done in small sub-projects. This distributes and minimizes requirements risk. Appropriate time must be built into the schedule to ensure adequate time to fully define requirements and ensure successful completion.
All requested process automation cannot be accomplished	The cost of automation should be weighed against the value provided to the ASRS and the risk created by not automating. Since the project will be done iteratively, processes that cannot be automated will be discovered early and development will work around those issues.
Inadequate testing time due to Bank of America's (BoFA) testing policies	Adequate testing with BoFA will be critical to the success of the project. It is desirable to have at least three months set aside to do parallel payroll testing with BoFA. BoFA's testing schedule must be carefully coordinated with TSD's testing schedule.
TSD unable to support both State Street & BoFA during the transition phase and post implementation	Adequate resources will need to be allocated to the project to ensure that there is sufficient staff available to support both BoFA and State Street for six months. Architecture and development will take into consideration the need for parallel processing and support both prior to and after the

	conversion.
Existing system performance may be degraded	Adequate resources and budget (time and dollars) will need to be allocated to this project to ensure the development of this system will not degrade our existing system performance. ASRS will include regression and performance testing as part of the development effort to ensure that we do not degrade any existing applications or develop any new applications that do not perform adequately.
Inability to implement by beginning of a new year	Adequate resources will need to be allocated to the project to ensure the development can be completed in time for three months of parallel testing prior to implementation. Sub-projects will need to be arranged so that development essential to the conversion is prioritized. Other development that does not need to be ready for a January 1 implementation can be scheduled for later releases.

Operational Risks	Mitigation Strategy
Staying current with IRS/ADOR tax regulations; Inability to comply with IRS/ADOR tax regulations	Subscribe to on-line tax services, CPE and consult with ASRS tax counsel.
Ongoing resource requirements are greater than anticipated	Staff will have to monitor the process to ensure adequate resources are in place. Agile/Scrum development process will provide earlier indications of potential resource needs.
Maintaining check stock internally; Securing signature plates/stamps for check printing	Implement generally accepted internal controls.

#### IV. Technology Approach

##### **A. Proposed Technology Solution\***

TSD is proposing to take in-house certain processes currently performed by State Street using the Java and FileNet toolsets already in place. The bank interface files will be converted to standard National Automated Clearing House Association (NACHA) formats. Files transferred between ASRS and BofA will be sent via secure transmission protocols. Reconciliation processes that are no longer required will be eliminated. This will result in a development application that leverages existing Public Employees' Retirement Information (PERIS) On-Line functionality and provides the business users with improved processes and functionality as needed.

ASRS will need a more robust disaster recovery setup in Tucson to support additional payroll responsibilities, such as running pension in the event of a disaster in Phoenix. Because of this we will need to add more hardware and printers. Network upgrades will also be required, including new switch and new security appliance for data transfer in both Phoenix and Tucson.

ASRS will use the Agile/Scrum software development process for this project. Scrum is an agile software development model based on a small team working in an intensive and interdependent manner. The

project will be divided into short, three week “sprints” where the team will work on user stories (subsections of the desired features). A sprint consists of planning session, combined development and testing, daily status meetings (daily scrum meeting), a review of the finished stories (sprint reviews) and a review of the sprint process (sprint retrospectives). There will be heavy user involvement throughout each sprint and multiple opportunities to ‘inspect and adapt’. The business users will be involved in requirements gathering, user acceptance testing, training, development of standard operating procedures and ultimately in using the new applications. This implementation will allow TSD to adequately manage the resources needed to bring current bank processes in-house.

ASRS Disbursement Processes: Current and Proposed

Payment processes	Currently done by:	Proposed to be done by:
Check for fraud before sending payment files	State Street	ASRS
Generate and send daily disbursement files	ASRS	ASRS
Generate and send monthly new retiree file	ASRS	ASRS
Generate and send monthly pension file	ASRS	ASRS
Generate and send annual 13th Check file	ASRS	ASRS

Tax processes	Currently done by:	Proposed to be done by:
Pay State taxes	State Street	ASRS
Pay Federal taxes	State Street	ASRS
Reclaim taxes from State	State Street	ASRS
Reclaim taxes from Federal	State Street	ASRS

Other deduction processes	Currently done by:	Proposed to be done by:
Pay dues	State Street	ASRS
Pay levies	State Street	ASRS
Pay child support	State Street	ASRS
Pay other vendors	State Street	ASRS

Check and payment information processes	Currently done by:	Proposed to be done by:
Process ACH	State Street	BofA
Print check and check stubs	State Street	ASRS
Store check stub/ACH deposit information	State Street	ASRS
View payment information online (member)	ASRS	ASRS
Print payment information for member (one offs)	ASRS	ASRS

Payment update processes	Currently done	Proposed to be
--------------------------	----------------	----------------

	by:	done by:
Stop payment (check or ACH)	ASRS/State Street	ASRS/BofA
Reissue payment (check or ACH)	ASRS/State Street	ASRS/BofA
Reclaim payment (check or ACH)	ASRS/State Street	ASRS/BofA
Stale check processing (check only)	ASRS/State Street	ASRS/BofA
Process returned items and NOC File (53 return codes and 13 NOC codes)	ASRS/State Street	ASRS/BofA
Process paid file (checks only)	ASRS/State Street	ASRS/BofA

1099 processes	Currently done by:	Proposed to be done by:
Update 1099 information	State Street	ASRS
Reconcile 1099s to payments sent throughout the year	ASRS	ASRS
Print 1099s for members	State Street	ASRS
Print adjusted 1099s	State Street	ASRS
View 1099 information online (members)	ASRS	ASRS
Print 1042s for members for Non-resident aliens	State Street	ASRS
Send State 1099 file	State Street	ASRS
Send Federal 1099 file	State Street	ASRS

Reconciliation & other processes	Currently done by:	Proposed to be done by:
Reconcile all payments	ASRS	ASRS
Create journal entries	ASRS	ASRS
Process Berwyn Death Report	State Street	ASRS
Process Thompson Quarterly Report	ASRS	ASRS

Report processes	Currently done by:	Proposed to be done by:
Generate reports	ASRS	ASRS

	Before	After
ASRS	18	35
State Street	25	0
BofA	0	7
<b>Total Processes</b>	<b>37</b>	<b>37</b>

## ***B. Technology Environment***

Switching from State Street to BofA will not require any technology environment changes. ASRS already interfaces with BofA for ACH payments from Employers. BofA is also the provider for ASRS Debit Cards (used in lieu of paper checks for pensioners).

The bank processes that will be taken in house will be developed in the current ASRS Java environment. The disbursements engine is written entirely within existing Java framework, known as Peris On-Line (POL). Certain monthly payment processes are still done using Oracle Forms and PL/SQL code. These processes will be converted either as required during the project, or their conversion will be coordinated with the Oracle Modernization project teams.

The ASRS Oracle Modernization (RT13001) project is to reengineer the existing PERIS applications originally developed from 1998-2004 utilizing Oracle Forms and Reports, into a modern and sustainable technology platform. The replacement applications will be developed by ASRS resources, utilizing the Java (Forms) and Cognos (Reports) toolsets, in order to integrate these into the existing POL Java Web based application.

### ***C. Selection Process***

The majority of peers within the CEM peer universe appear to administer the entire benefit cycle in-house, which includes benefit calculations, electronic payment transmission, printing and mailing paper checks and remittance advices, and tax withholding and reporting. Interviews were conducted with the following pension plans that process their entire benefit cycle in-house:

- California State Teachers Retirement System (CalSTRS)
- Missouri State Employees Retirement System (MOSERS)
- Wisconsin Department of Employee Trust Funds (WDETf)
- Illinois Municipal Retirement System (IMRF)
- Arizona Public Safety Personnel Retirement System (PSPRS)

Staff also interviewed key personnel at the ADOA, the State Treasurer's Office and Bank of America to ask questions about their business processes. The overall impression of staff based on the interviews conducted was:

- Other retirement systems are able to perform this service without a large commitment of human resources.
- In 1999, when the benefit disbursement process was outsourced, payments were primarily issued via paper check. Today, the majority of payments are made electronically. The ASRS can help to keep volumes manageable for staff by continuing to maximize its use of electronic payments and minimize the volume of printed checks and remittance advices.
- BofA, the state's current depository bank, has the capability needed to issue benefit disbursements for the ASRS. To successfully implement an internal benefit disbursement system, the ASRS would need to ensure its file formats conform to the formats required by BofA.
- The ASRS should be able to utilize the existing state contract, which eliminates the need for the ASRS to procure banking services. Historically, BofA has offered a pricing structure substantially below what other banks charge for the same services because of the large deposits the state houses with them. Therefore, it makes sense to proceed on the assumption the ASRS will use BofA.

The State Treasurer’s Office has historically absorbed banking costs for other state agencies. It absorbs the costs because it also enjoys the benefit of any interest earned on state agency bank accounts. The Treasurer’s Office has said that it will discuss the possibility of absorbing banking fees related to the benefit disbursement process in the event we decide to move forward with our project and move closer to an implementation date.

**V. Project Approach**

**A. Project Schedule\***

**Project Start Date:** 7/1/2015      **Project End Date:** 6/28/2019

**B. Project Milestones**

Major Milestones	Start Date	Finish Date
Vendor Management	7/1/15	9/22/15
General Accounting	9/23/15	8/23/16
Stop Check Payment	8/24/16	10/25/16
Fraud Check	10/26/16	3/21/17
Generate EFT File	3/22/17	6/13/17
Generate Image File	6/14/17	7/25/17
Payment Status Updates	7/26/17	11/7/17
Generate Payments	11/8/17	4/24/18
Handling of Inserts	4/25/18	6/26/18
Payment for Reissued EFTs and Checks	6/27/18	9/18/18
Print Paper Checks, Stubs and Advices	9/19/18	11/20/18
Generate 1099R	11/21/18	5/7/19
Corrected 1099	5/8/19	6/28/19

**VI. Roles and Responsibilities**

**A. Project Roles and Responsibilities**

The following technology resources will be dedicated to the project, with other ASRS subject matter experts supporting the work effort as needed. The team will utilize the current Agile/Scrum development methodology and will apply Project Management Institute (PMI) principles. The development team will have the necessary technical skillsets to perform the work required.

The development team will consist of two FTE resources for scrum master and project manager/business analyst. The other four roles (technical lead, developers and tester) will be filled by consultants.

A Change Management Board consisting of Chief Operating Officer (Deputy Director) and Senior Management Team (Assistant Directors) will provide project oversight.

Resource Type	Total Resources	%

Scrum Master	1	17%
Project Manager/Business Analyst	1	17%
Technical Lead	1	17%
Java Software Engineer	2	33%
Quality Assurance Engineer	1	17%
TOTAL	6	100.0%

Other supporting resources includes: Chief Information Officer, Project Management Team Manager, System Architect and Quality Assurance Manager.

**B. Project Manager Certification**

- Project Management Professional (PMP) Certified
- State of Arizona Certified
- Project Management Certification not required

**C. Full-Time Employee (FTE) Project Hours**

<b>Total Full-Time Employee Hours</b>	10,224
<b>Total Full-Time Employee Cost</b>	\$589,516

**VII. Risk Matrix, Areas of Impact, Itemized List, PIJ Financials**



Project Investment Justification.xlsx

## VIII. Project Approvals

### A. Agency CIO Review\*

Key Management Information	Yes	No
1. Is this project for a mission-critical application system?	X	
2. Is this project referenced in your agency's Strategic IT Plan?	X	
3. Is this project in compliance with all agency and State standards and policies for network, security, platform, software/application, and/or data/information as defined in <a href="http://aset.azdoa.gov/security/policies-standards-and-procedures">http://aset.azdoa.gov/security/policies-standards-and-procedures</a> , and applicable to this project? If <b>NO</b> , explain in detail in the "XI. Additional Information" section below.	X	
4. Will this project transmit, store, or process sensitive, confidential or Personally Identifiable Information (PII) data? If <b>YES</b> , in the "XI. Additional Information" section below, describe what security controls are being put in place to protect the data.	X	
5. Is this project in compliance with the Arizona Revised Statutes (A.R.S.) and GRRC rules?	X	
6. Is this project in compliance with the statewide policy regarding the accessibility to equipment and information technology for citizens with disabilities?	X	

### B. Project Values\*

The following table should be populated with summary information from other sections of the PIJ.

Description	Section	Number or Cost
Assessment Cost (if applicable for Pre-PIJ)	II. PIJ Type - Pre-PIJ Assessment Cost	\$0
Total Development Cost	VII. PIJ Financials tab	\$2,874,823
Total Project Cost	VII. PIJ Financials tab	\$3,016,774
FTE Hours	VI. Roles and Responsibilities	10,224

### C. Agency Approvals\*

Contact	Printed Name	Signature	Email and Phone
Project Manager:	Brandon Heathcotte		
Agency Information Security Officer:	Gary Hummel		
Agency CIO:	Kent Smith		
Project Sponsor:	Nancy Bennett		
Agency Director:	Paul Matson		

## IX. Optional Attachments

Not Applicable

## X. Glossary

ACH - An electronic network for financial transactions in the United States; ACH processes large volumes of credit and debit transactions in batches.

CEM - The ASRS has participated in the CEM defined benefit administration benchmarking service since 2001. Each year, the ASRS submits data regarding the various services offered to members, as well as current service levels, transaction volumes, costs, and staffing levels, broken down between different activities. CEM compiles the results and provides a report that benchmarks the ASRS against a group of like-sized peers (approximately 15) within the US and also to a larger universe of participants in North America.

NACHA - Previously the National Automated Clearing House Association, manages the development, administration, and governance of the ACH Network

POL – Peris Online, user interface used by ASRS, developed in Java

PERIS – User interface used by ASRS, developed in Oracle Forms

## XI. Additional Information

At the ASRS, we utilize industry best practices (e.g. firewall, anti-virus, log review) including encryption to transmit any data outside of our network. In addition, we are in the process of implementing security controls based on the state-recommended NIST standards. We also participate in external security assessments on a bi-annual basis.

Links:

[ADOA-ASET Website](#)

[ADOA-ASET Project Investment Justification Information Templates and Contacts](#)

Email Addresses:

[Strategic Oversight](#)

[ADOA-ASET\\_Webmaster@azdoa.gov](mailto:ADOA-ASET_Webmaster@azdoa.gov)

**ADOA-ASET - Arizona Strategic Enterprise Technology**  
**Project Investment Justification - Financials**

**Project ID:**

To Be Provided by ADOA-ASET

**Date Accepted:**

To be Provided by ADOA-ASET

**Project Information**

Agency Name	Project Name	Date Submitted
Arizona State Retirement System (ASRS)	Benefit Disbursements Project	04/06/15

**PIJ Development & Operational Cost Summary**

Description	Type	Year 1	Year 2	Year 3	Year 4	Year 5	Extended Cost
Professional & Outside Services	Development	\$635,108.61	\$622,635.00	\$641,314.50	\$660,553.50	\$0.00	\$2,559,611.61
	Operational					\$0.00	\$0.00
Hardware	Development	\$237,133.33				\$0.00	\$237,133.33
	Operational					\$0.00	\$0.00
Software	Development	\$42,230.45				\$0.00	\$42,230.45
	Operational					\$0.00	\$0.00
Communications	Development					\$0.00	\$0.00
	Operational					\$0.00	\$0.00
Facilities	Development					\$0.00	\$0.00
	Operational					\$0.00	\$0.00
Licensing & Maintenance Fees	Development	\$35,487.74				\$0.00	\$35,487.74
	Operational		\$35,487.74	\$35,487.74	\$35,487.74	\$35,487.74	\$141,950.96
Other	Development	\$360.34				\$0.00	\$360.34
	Operational						\$0.00

**Development Cost:** \$2,874,823.47  
**Operational Cost:** \$141,950.96  
**Total Cost:** \$3,016,774.43

**Project Funding (add sources as appropriate)**

Funding Source Category	Fund Name	Development Budget (\$)		Operational Budget (\$)		Total (\$)
		Currently Available	New Request	Currently Available	New Request	
General Funds						\$0.00
Federal Funds						\$0.00
Other Appropriated Funds						\$0.00
Other Non-Appropriated Funds	ASRS Trust Fund	\$2,874,823.47		\$141,950.96		\$3,016,774.43
<b>Total Funding</b>		\$2,874,823.47	\$0.00	\$141,950.96	\$0.00	\$3,016,774.43

**ADOA-ASET - Arizona Strategic Enterprise Technology  
Project Investment Justification - Itemized List**

**Project ID:** To Be Provided by ADOA-ASET

**Date Accepted:** To Be Provided by ADOA-ASET

**Project Information**

Project Name	Agency Name	Date Submitted
Benefit Disbursements Project	Arizona State Retirement System (ASRS)	04/06/15

**Project Cost - Itemized**

Item	Description	Category	Development or Operational	Qty or Hours	Unit Cost	Tax (if app)	Extended Cost
1	Consultant developers and testers (hours * blended rate)	Prof & Outside Services	Development	29760	\$84.98	\$0.00	\$2,529,003.00
2	Printers – remittance advices and 1099R (Phx & Tucson)	Hardware	Development	2	\$60,000.00	\$9,960.00	\$129,960.00
3	MICR Check Printers (Phx & Tucson)	Hardware	Development	2	\$2,500.00	\$415.00	\$5,415.00
4	Folding machine (Phx)	Hardware	Development	1	\$20,000.00	\$1,660.00	\$21,660.00
5	Palo Alto Firewalls (Phx & Tucson)	Hardware	Development	2	\$9,800.00	\$1,626.80	\$21,226.80
6	Palo Alto GlobalProtect Base License (Phx & Tucson)	License & Maint Fees	Development	2	\$6,800.00	\$1,128.80	\$14,728.80
7	Palo Alto Add-On Subscriptions (Phx & Tucson)	License & Maint Fees	Development	2	\$5,880.00	\$976.08	\$12,736.08
8	Cisco Network Switches (Phx & Tucson)	Hardware	Development	2	\$3,233.50	\$536.76	\$7,003.76
9	Servers (Phx)	Hardware	Development	1	\$35,892.68	\$2,979.09	\$38,871.77
10	Storage - Compellent Remote Instant Play Software (Phx)	Software	Development	1	\$19,893.95	\$1,651.20	\$21,545.15
11	Storage - Compellent Hardware Remote Site (Tucson)	Hardware	Development	1	\$12,000.00	\$996.00	\$12,996.00
12	Storage - Compellent Software (Tucson)	Software	Development	1	\$19,100.00	\$1,585.30	\$20,685.30
13	Installation Services	Prof & Outside Services	Development	1	\$30,608.60	\$0.00	\$30,608.60
14	Shipping and Handling	Other	Development	1	\$360.34	\$0.00	\$360.34
15	Year 1 Licensing & Maintenance Support	License & Maint Fees	Development	1	\$7,408.00	\$614.86	\$8,022.86
16	Year 2-5 Licensing & Maintenance Support (inc. subscriptions)	License & Maint Fees	Operational	4	\$32,768.00	\$10,878.98	\$141,950.98

Total of Development Cost	\$2,874,823.47
Total of Operational Cost	\$141,950.98
<b>Total Itemization of Costs:</b>	<b>\$3,016,774.44</b>

# Attachment 2



# Arizona State Retirement System

***Benefits Disbursement Project  
Presentation to Information  
Technology Authorization  
Committee (ITAC)***

*April 22, 2015*



# **BENEFITS DISBURSEMENT –** **CEM STUDY RESULTS**

- ❑ **The ASRS has participated in the CEM pension benefit administration benchmarking study since 2001.**
- ❑ **CEM provides a report that benchmarks the ASRS against a group of like-sized peers in:**
  - Service Levels
  - Total Costs
  - Cost by Activity
  - Staff Costs and Productivity
  - Transaction Volumes
  - Complexity
  - IT and Major Projects
- ❑ **ASRS benefits disbursement costs were found to be 51 percent greater than similar sized U.S. public pension funds.**



# **BENEFITS DISBURSEMENT – PROBLEM DESCRIPTION**

- Based on the CEM report, further research and analysis was needed to determine whether the benefits disbursement process could be made more cost-effective.**
- The primary reason for the difference in cost was found to be the ASRS' reliance on a third party to disburse benefits.**
- The majority of ASRS peers administer the entire benefits cycle in-house, without a large commitment of human resources.**
  - benefit calculations
  - electronic payment transmission
  - printing and mailing paper checks and remittance advices
  - tax withholding and reporting



# **BENEFITS DISBURSEMENT - SOLUTION**

- ASRS recommends moving disbursement-related functions away from the current custodial bank.**
- The State's depository bank has the capability to issue EFT benefit disbursements for the ASRS.**
- ASRS will take on the remainder of the work done by the current custodial bank.**
  - Payments of taxes to IRS and AZDOR
  - Payments of dues and levies to 3rd parties
  - Printing checks to retirees
  - Storing and distribution of 1099/1042 tax data
- With the number of paper checks required having diminished greatly, it now makes sense to bring these functions in-house.**



# **BENEFITS DISBURSEMENT - JUSTIFICATION**

- Upon completion, ASRS anticipates a reduction in overall disbursement costs from \$1.4 Million per year to \$339K per year for the proposed solution.**

<b>Total Estimated Annual Savings</b>	
	Estimate
<b>Current fees – external vendor</b>	\$1,426,382
<b>Estimated costs – internal disbursements</b>	(-338,835)
<b>Total Annual Savings</b>	\$1,087,547



# **BENEFITS DISBURSEMENT –** **PROJECT BENEFITS**

- ❑ Provides 4 additional processing days prior to cut-off**
  - Turnaround times lessened for new retirees, survivor benefits, benefit rescinds and reverts, re-retirees, return to work, and pension adjustments.
  - Staff will have 4 additional days to process changes and forms to take effect in the current month.
  - Faster turnaround times could reduce the number of member inquiries.
- ❑ Eliminates need to reconcile custodial bank records to ASRS records, and for custodial bank to house PII, with fewer files transmitted between bank and ASRS**
- ❑ Allows a faster transition if we must change banks**
- ❑ Brings ASRS in-line with best practices**
  - Use of industry standard NACHA file format instead of customized format



# **PROPOSED IMPLEMENTATION**

## **PLAN**

Retirement System

<b>PERIS Application Name</b>	<b>Duration Months</b>	<b>Hours</b>	<b>Start Date</b>	<b>Finish Date</b>
<b>Vendor Management</b>	2	2,342	7/1/15	9/22/15
<b>General Accounting</b>	8	9,128	9/23/15	8/23/16
<b>Stop Check Payment</b>	2	1,858	8/24/16	10/25/16
<b>Fraud Check</b>	4	4,200	10/26/16	3/21/17
<b>Generate EFT File</b>	2	2,504	3/22/17	6/13/17
<b>Generate Image File</b>	1	646	6/14/17	7/25/17
<b>Payment Status Updates</b>	3	2,746	7/26/17	11/7/17
<b>Generate Payments</b>	4	4,483	11/8/17	4/24/18
<b>Handling of Inserts</b>	2	1,777	4/25/18	6/26/18
<b>Payment for Reissued EFTs and Checks</b>	2	2,100	6/27/18	9/18/18
<b>Print Paper Checks, Stubs and Advices</b>	2	1,939	9/19/18	11/20/18
<b>Generate 1099R</b>	4	5,170	11/21/18	5/7/19
<b>Corrected 1099</b>	1	1,090	5/8/19	6/28/19
<b>TOTAL</b>	48	39,983	7/1/15	6/28/19



# **PROPOSED ALLOCATION OF RESOURCES & FUNDING**

<b>FY Year</b>	<b>Funding Amount</b>	<b>Resources Required</b>
<b>FY 2016</b>	\$635,109	6
<b>FY 2017</b>	\$622,635	6
<b>FY 2018</b>	\$641,315	6
<b>FY 2019</b>	\$660,554	6
<b>Equipment, Other Upfront and Ongoing Costs</b>	\$457,161	-
<b>Total</b>	<b>\$3,016,774</b>	<b>6</b>

<b>Resource Type</b>	<b>Total Resources</b>	<b>%</b>
<b>Scrum Master</b>	1	16.7%
<b>Project Manager/Business Analyst</b>	1	16.7%
<b>Technical Lead</b>	1	16.7%
<b>Java Software Engineer</b>	2	33.3%
<b>Quality Assurance Engineer</b>	1	16.7%
<b>TOTAL</b>	<b>6</b>	<b>100.0%</b>



# **BENEFITS DISBURSEMENT –** **RISK MITIGATION**

- ❑ **Strong Executive Management sponsorship and Strategic Plan that drives vision, goals and objectives**
- ❑ **Already working with Bank of America for contributions processing and debit cards**
- ❑ **Project Management and Oversight provided by:**
  - ASET Oversight
  - Change Control Board consisting of Chief Operating Officer (Deputy Director and Senior Managers (Assistant Directors)
  - PMP and State Certified Project Managers
- ❑ **Adhere to Project Management Methodology, PMBOK**
- ❑ **Adhere to Agile/Scrum Development Methodology**
- ❑ **Recruitment, development and retention of knowledgeable and experienced staff, and strong business subject matter experts**
- ❑ **Industry standard technologies and tools that have been used successfully: Java, Oracle and Spring Framework**
- ❑ **Disaster recovery for Benefits Disbursement being established as part of the project**

Arizona State



Retirement System

**QUESTIONS?**

# Attachments: Schedules E-G

**ASRS Administrative and Investment Spending Estimate**  
**Fiscal Year 2015**  
(Dollars In Thousands)

	Base Operating Appropriations	+ Long Term Disability Appropriations	+ Oracle Modernization Special Legislative Appropriations	+ Other Prior Year Special Legislative Appropriations	+ Administrative Continuous Appropriations	= Administrative Subtotal	+ Investment Continuous Appropriations	= Total
<b><u>Personal Services (PS) and Employee Related Expenses (ERE)</u></b>								
PS (Wages and Salaries)	11,495.3		780.7	49.6	435.0	12,760.6	1,156.1	13,916.7
ERE (Employer costs for Benefits, Taxes and ADOA Admin. Fees)	4,689.7		275.9	22.6	135.0	5,123.2	335.4	5,458.6
Variable Compensation Strategies (PS/ERE)	274.3					274.3		274.3
Investment Incentive Compensation Plan (PS/ERE)	269.7					269.7		269.7
<b>Total PS and ERE</b>	<b>16,729.0</b>	<b>-</b>	<b>1,056.6</b>	<b>72.2</b>	<b>570.0</b>	<b>18,427.8</b>	<b>1,491.5</b>	<b>19,919.3</b>
<b><u>External Professional Services</u></b>								
External Investment Management Expenses						-	226,549.0	226,549.0
LTD Program Administration		2,300.0				2,300.0		2,300.0
Software Programming Costs	830.0		679.6	69.5	545.0	2,124.1		2,124.1
Actuary & Benefit Consulting					925.0	925.0		925.0
Consulting & Legal Fees	752.0					752.0	5,692.0	6,444.0
Pension Payroll Disbursement Services					1,546.0	1,546.0		1,546.0
Other Outside Services	190.0					190.0		190.0
<b>Total External Professional Services</b>	<b>1,772.0</b>	<b>2,300.0</b>	<b>679.6</b>	<b>69.5</b>	<b>3,016.0</b>	<b>7,837.1</b>	<b>232,241.0</b>	<b>240,078.1</b>
<b><u>Travel, Other Operating &amp; Equipment</u></b>								
Software Licenses & Support	1,180.0					1,180.0		1,180.0
Equipment & Furniture	408.0					408.0		408.0
Telephone	320.0					320.0		320.0
Postage and Delivery	233.0				130.0	363.0		363.0
Insurance	281.5					281.5		281.5
Operating Supplies	86.1					86.1		86.1
Repair & Maintenance	100.4					100.4		100.4
Dues & Subscriptions	81.2					81.2	1,700.0	1,781.2
Education & Training	84.0					84.0		84.0
Travel	90.6					90.6		90.6
External Printing	60.0					60.0		60.0
Office Rent					1,505.0	1,505.0		1,505.0
<b>Total Travel, Other Operating &amp; Equipment</b>	<b>2,924.8</b>		<b>-</b>	<b>-</b>	<b>1,635.0</b>	<b>4,559.8</b>	<b>1,700.0</b>	<b>6,259.8</b>
<b>TOTAL</b>	<b>21,425.8</b>	<b>2,300.0</b>	<b>1,736.2</b>	<b>141.7</b>	<b>5,221.0</b>	<b>30,824.7</b>	<b>235,432.5</b>	<b>266,257.2</b>

**ASRS Administrative and Investment Spending Plan**  
**Fiscal Year 2016**  
(Dollars In Thousands)

	Base Operating Appropriations	+ Long Term Disability Appropriations	+ Oracle Modernization Special Legislative Appropriations	+ ASRS Benefit Disbursement PIJ Continuous Appropriations	+ Administrative Continuous Appropriations	= Administrative Subtotal	+ Investment Continuous Appropriations	= Total
<b>Personal Services (PS) and Employee Related Expenses (ERE)</b>								
PS (Wages and Salaries)	12,536.3		525.0	110.0	300.0	13,471.3	1,324.9	14,796.2
ERE (Employer costs for Benefits, Taxes and ADOA Admin. Fees)	4,952.4		185.0	36.0	100.0	5,273.4	426.0	5,699.4
Variable Compensation Strategies (PS/ERE budget reserved)	314.2					314.2		314.2
Investment Incentive Compensation Plan (PS/ERE budget reserved)								
	352.5					352.5		352.5
<b>Total PS and ERE</b>	<b>18,155.4</b>	<b>-</b>	<b>710.0</b>	<b>146.0</b>	<b>400.0</b>	<b>19,411.4</b>	<b>1,750.9</b>	<b>21,162.3</b>
<b>External Professional Services</b>								
External Investment Management Expenses						-	236,146.8	236,146.8
LTD Program Administration		2,800.0				2,800.0		2,800.0
Software Programming Costs	742.4		1,560.0	635.2	400.0	3,337.6		3,337.6
Actuary & Benefit Consulting					925.0	925.0		925.0
Consulting & Legal Fees	400.0					400.0	5,538.5	5,938.5
Pension Payroll Disbursement Services					1,622.0	1,622.0		1,622.0
Other Outside Services	150.0					150.0		150.0
<b>Total External Professional Services</b>	<b>1,292.4</b>	<b>2,800.0</b>	<b>1,560.0</b>	<b>635.2</b>	<b>2,947.0</b>	<b>9,234.6</b>	<b>241,685.3</b>	<b>250,919.9</b>
<b>Travel, Other Operating &amp; Equipment</b>								
Software Licenses & Support	1,275.0					1,275.0		1,275.0
Equipment & Furniture	651.1			315.2		966.3		966.3
Telephone	340.0					340.0		340.0
Postage and Delivery	235.0				137.0	372.0		372.0
Insurance	309.0					309.0		309.0
Operating Supplies	154.4					154.4		154.4
Repair & Maintenance	150.0					150.0		150.0
Dues & Subscriptions	119.4					119.4	2,000.0	2,119.4
Education & Training	90.0					90.0		90.0
Travel	79.9					79.9		79.9
External Printing	60.0					60.0		60.0
Office Rent					1,505.0	1,505.0		1,505.0
<b>Total Travel, Other Operating &amp; Equipment</b>	<b>3,463.8</b>	<b>-</b>	<b>-</b>	<b>315.2</b>	<b>1,642.0</b>	<b>5,421.0</b>	<b>2,000.0</b>	<b>7,421.0</b>
<b>TOTAL</b>	<b>22,911.6</b>	<b>2,800.0</b>	<b>2,270.0</b>	<b>1,096.4</b>	<b>4,989.0</b>	<b>34,067.0</b>	<b>245,436.2</b>	<b>279,503.2</b>

**ASRS Administrative and Investment Spending Plan**  
**Fiscal Year 2017**  
(Dollars In Thousands)

	Base Operating Appropriations	+ Long Term Disability Appropriations	+ Oracle Modernization Special Legislative Appropriations	+ ASRS Benefit Disbursement PIJ Continuous Appropriations	+ Administrative Continuous Appropriations	= Administrative Subtotal	+ Investment Continuous Appropriations	= Total
<b>Personal Services (PS) and Employee Related Expenses (ERE)</b>								
PS (Wages and Salaries)	12,498.8		525.0	110.0	300.0	13,433.8	1,324.9	14,758.7
ERE (Employer costs for Benefits, Taxes and ADOA Admin. Fees)	4,944.9		185.0	36.0	100.0	5,265.9	426.0	5,691.9
Variable Compensation Strategies (PS/ERE)	314.2					314.2		314.2
Investment Incentive Compensation Plan (PS/ERE budget reserved)	397.5					397.5		397.5
<b>Total PS and ERE</b>	<b>18,155.4</b>	<b>-</b>	<b>710.0</b>	<b>146.0</b>	<b>400.0</b>	<b>19,411.4</b>	<b>1,750.9</b>	<b>21,162.3</b>
<b>External Professional Services</b>								
External Investment Management Expenses						-	257,605.5	257,605.5
LTD Program Administration		2,800.0				2,800.0		2,800.0
Software Programming Costs	742.4		1,360.0	622.6	400.0	3,125.0		3,125.0
Actuary & Benefit Consulting					925.0	925.0		925.0
Consulting & Legal Fees	400.0					400.0	5,539.3	5,939.3
Pension Payroll Disbursement Services					1,702.0	1,702.0		1,702.0
Other Outside Services	150.0					150.0		150.0
<b>Total External Professional Services</b>	<b>1,292.4</b>	<b>2,800.0</b>	<b>1,360.0</b>	<b>622.6</b>	<b>3,027.0</b>	<b>9,102.0</b>	<b>263,144.8</b>	<b>272,246.8</b>
<b>Travel, Other Operating &amp; Equipment</b>								
Software Licenses & Support	1,320.0			35.5		1,355.5		1,355.5
Equipment & Furniture	389.5					389.5		389.5
Telephone	340.0					340.0		340.0
Postage and Delivery	235.0				144.0	379.0		379.0
Insurance	309.0					309.0		309.0
Operating Supplies	154.4					154.4		154.4
Repair & Maintenance	150.0					150.0		150.0
Dues & Subscriptions	119.4					119.4	2,000.0	2,119.4
Education & Training	90.0					90.0		90.0
Travel	79.9					79.9		79.9
External Printing	60.0					60.0		60.0
Office Rent					1,505.0	1,505.0		1,505.0
<b>Total Travel, Other Operating &amp; Equipment</b>	<b>3,247.2</b>	<b>-</b>	<b>-</b>	<b>35.5</b>	<b>1,649.0</b>	<b>4,931.7</b>	<b>2,000.0</b>	<b>6,931.7</b>
<b>TOTAL</b>	<b>22,695.0</b>	<b>2,800.0</b>	<b>2,070.0</b>	<b>804.1</b>	<b>5,076.0</b>	<b>33,445.1</b>	<b>266,895.7</b>	<b>300,340.8</b>

Appendix:

FY 2017

Appropriated

Budget Detail

# FY 2017 Appropriated Budget Detail: Technology Risk Management Strategies

Objective: Request additional resources to address risk management strategies that include enhancements to data security efforts.

FY 2016 Appropriations	Funding Request for FY 2017
---------------------------	--------------------------------

<b>Personal Services</b>				<b>282,000</b>	<b>282,000</b>
<b>Fiscal Yr.</b>	<b>Quantity</b>	<b>Unit</b>	<b>Description</b>		
FY 16/17	1	Annual	Senior Information Security Engineer		
FY 16/17	1	Annual	Senior/Lead Application Developer		
FY 16/17	1	Annual	Information Security Engineer		
<b>Employee Related Expenditures (ERE)</b>				<b>108,800</b>	<b>108,800</b>
<b>Fiscal Yr.</b>	<b>Rate</b>	<b>Unit</b>	<b>Description</b>		
FY 16/17	38.6%	Annual	Employee Related Expenditures (Rate expressed as a % of Personal Services)		
<b>Professional and Outside Services</b>				<b>213,100</b>	<b>213,100</b>
<b>Fiscal Yr.</b>		<b>Unit</b>	<b>Description</b>		
FY 16/17		Annual	Professional Consulting Services		
<b>Other Operating Expenses</b>				<b>12,300</b>	<b>57,300</b>
<b>Fiscal Yr.</b>		<b>Unit</b>	<b>Description</b>		
FY 17		Annual	New Security Appliances and Software: Annual License and Support Renewal		45,000
FY 16/17		Annual	New FTE Associated Costs (Standard Operating Costs)	12,300	12,300
<b>Equipment</b>				<b>254,600</b>	<b>-</b>
<b>Fiscal Yr.</b>		<b>Unit</b>	<b>Description</b>		
FY 16		One-Time	PIJ- Security Appliances and Software	233,600	
FY 16		One-Time	New FTE Associated Costs (Equipment)	21,000	
<b>TOTALS - FY 2016 and FY 2017 APPROPRIATED BUDGET</b>				<b>870,800</b>	<b>661,200</b>

# FY 2017 Appropriated Budget Detail: Internal Audit

Objective: Request additional resources to assess and assist employer compliance with ASRS laws, rules, and policies.

FY 2016 Appropriations	Funding Request for FY 2017
---------------------------	--------------------------------

<b>Personal Services</b>				<b>56,000</b>	<b>56,000</b>
<b>Fiscal Yr.</b>	<b>Quantity</b>	<b>Unit</b>	<b>Description</b>		
FY 16/17	1	Annual	Employer Audit Officer		
<b>Employee Related Expenditures (ERE)</b>				<b>22,100</b>	<b>22,100</b>
<b>Fiscal Yr.</b>	<b>Rate</b>	<b>Unit</b>	<b>Description</b>		
FY 16/17	38.6%	Annual	Employee Related Expenditures (Rate expressed as a % of Personal Services)		
<b>Conference, Education and Travel</b>				<b>1,300</b>	<b>1,300</b>
<b>Fiscal Yr.</b>		<b>Unit</b>	<b>Description</b>		
FY 16/17		Annual	Annual Travel Related Expenses		
<b>Other Operating Expenses</b>				<b>3,000</b>	<b>3,000</b>
<b>Fiscal Yr.</b>		<b>Unit</b>	<b>Description</b>		
FY 16/17		Annual	New FTE Associated Costs (Standard Operating Costs)		
<b>Equipment</b>				<b>7,000</b>	<b>-</b>
<b>Fiscal Yr.</b>		<b>Unit</b>	<b>Description</b>		
FY 16		One-Time	New FTE Associated Costs (Equipment)		
<b>TOTALS - FY 2016 and FY 2017 APPROPRIATED BUDGET</b>				<b>89,400</b>	<b>82,400</b>

## FY 2017 Appropriated Budget Detail - Long Term Disability Program Administration

Description	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Appropriation	Funding Request for FY 2017
Administration costs of the LTD program (Appropriated Funding)	2,736,300	2,532,400	2,300,000	2,800,000	2,800,000
<b>TOTALS - FY 2016 and FY 2017 APPROPRIATED BUDGET</b>	<b>2,736,300</b>	<b>2,532,400</b>	<b>2,300,000</b>	<b>2,800,000</b>	<b>2,800,000</b>

### Historical Claims History

Monthly Average Number of New LTD Claims

Monthly Average Number of Open LTD Claims

75	69	61	59*
4,841	4,672	4,497	4,380*

\*Projections

**FY 2017 Appropriated Budget Detail: Oracle Forms and Reports Modernization**

Special Line Item Project

Objective: Evolve legacy technologies to newer open standards-based technologies and re-engineer business processes to increase productivity, reduce costs, mitigate risks, improve member satisfaction and improve service turnaround time to members.

FY 2014 Appropriation	FY 2015 Appropriation	FY 2016 Appropriation	Funding Request for FY 2017	Project Totals
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<b>Personal Services &amp; Employee Related Expenditures and Ext. Professional Services</b>				<b>1,330,000</b>	<b>4,484,500</b>	<b>2,270,000</b>	<b>2,070,000</b>	<b>10,154,500</b>
Fiscal Yr.	Quantity		Description					
FY 14 - FY 17	1		Software Development Resources	1,330,000	4,484,500	2,270,000	2,070,000	
<b>Other Operating and Equipment</b>				<b>60,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60,000</b>
Fiscal Yr.	Quantity	Unit	Description					
FY 14	1	One-Time	Project Equipment and Software	60,000				
<b>TOTALS - FY 2014 - FY 2017 APPROPRIATED BUDGET</b>				<b>1,390,000</b>	<b>4,484,500</b>	<b>2,270,000</b>	<b>2,070,000</b>	<b>10,214,500</b>



# ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO Box 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000  
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100  
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778  
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

*Paul Matson*  
Director

## MEMORANDUM

**TO:** Mr. Jeff Tyne, Chair, ASRS Operations and Audit Committee (OAC)

**FROM:** Mr. Paul Matson, Director  
Mr. Anthony Guarino, Deputy Director and Chief Operations Officer  
Ms. Martha Rozen, Chief of Administrative Services  
Ms. Tracy Darmer, Human Resources Manager

**DATE:** July 7, 2015

**RE:** **Agenda Item #4:** Presentation and Discussion Regarding Compensation Strategies and Staffing Conditions for Fiscal Year 2015

### Purpose

To review the ASRS Compensation Strategies and Staffing Conditions for Fiscal Year 2015.

### Background

In August 2014, information was presented to the ASRS Board of Trustees outlining the criticality of access to qualified staff as one of three keys that influence the agency's ability to optimize operational capacity and performance at the ASRS.

A cornerstone of the ASRS strategic model is that making a purposeful investment in attracting and retaining the right complement of qualified professionals and providing a positive work environment leads to greater achievement. The strategic goal is to ensure consistent, high performance by supporting an effective operating structure and a workforce that reflects agency values.

While the ASRS recognizes several key risks related to staffing and that these risks cannot be completely eliminated, management has implemented the following control strategies to mitigate them to a manageable level:

- Prioritize recruitments and balance business needs with the costs of attracting and retaining qualified staff.
- Utilize a variety of compensation strategies – approved variable pay incentive plans as well as base pay adjustments – to remain competitive.
- Review position classification and compensation levels and anticipate adjustments necessary to achieve business objectives and/or retain key staff with invaluable historical knowledge of ASRS programs and systems.
- Sponsor the PRIDE Initiative with workgroups specifically focused on work environment issues.

These strategies appear to be working:

- The ASRS approach to recruitment is resulting in higher caliber employees – leading to more internal advancement and reduced talent acquisition costs. In Fiscal Year 2015, there were a total of 15 internal transfers and promotions, 10 of which included an increase in base salary. The average increase in base salary was \$7,366 or 14.87% for those 10 base salary increases.
- The PRIDE Initiative has taken hold at the ASRS. The 2014 employee survey results reflect 96 percent of employees are familiar with the PRIDE values; 91 percent clearly understand how to reflect those values in their daily job.
- Agency turnover is low. During Fiscal Year 2015, there were a total of 22 separations from the agency as compared to 29 separations during fiscal year 2014. Annual turnover, as of June 30, 2015, is 8.74%. And the most recent employee survey results (conducted in June 2014) reflect 92 percent of staff view working at the ASRS as a long-term career choice.

**Base Salary Adjustment History**

From September 2009 (FY 2010) through September 2012 (FY 2013), the ASRS was exempt from the State Personnel System as a result of legislation enacted during the 2009 Legislative session.

Effective with Personnel Reform legislation on September 29, 2012, the ASRS was required to obtain ADOA approval for any base salary adjustments for most positions. The only exclusions are the agency Director, Deputy Director, or equivalent positions (at the ASRS, this includes the Chief Investment Officer), and all requests must adhere to the classification and salary ranges determined by ADOA.

Effective July 1, 2015; while new guidelines issued by ADOA allow agencies the authority to make base salary adjustments, there still remains a requirement to submit any adjustments to ADOA – HR for review and comment prior to implementation.

The table below shows the ASRS-initiated base salary adjustments from FY 2010 to present:

**ASRS History of Salary Adjustments – as of June 30, 2015**

Fiscal Year	Average Number of Filled Positions	Number of Base Salary Increases	Average Amount of Increases	Average % of Increases	Dollar Amount of Increases as % of Agency EE Salary Total
2010	217	3	\$6860	11.00%	0.191%
2011	221	6	\$6037	7.73%	0.388%
2012	230	212	\$2441	4.63%	4.459%
2013	220	9	\$7475	8.81%	0.551%
2014	233	14	\$8928	7.96%	0.945%
2015	230	32	\$6362	11.12%	1.596%

### **Affected Positions by Division**

#### FY 2010

Member Services Division - 3

#### FY 2011

Member Services Division – 3

Investment Management Division - 3

#### FY 2012

During the time period that the ASRS was exempt from the State Personnel System, classifications and compensation were reviewed internally and the ASRS implemented an agency-wide motivation and retention plan that resulted in increases to base salaries in FY 2012.

#### FY 2013

Director's Office – 2

Member Services Division - 1

Investment Management Division - 3

Management Support Services - 1

External Affairs Division - 1

Technology Services Division - 1

#### FY 2014

Director's Office – 2

Member Services Division - 1

Financial Services Division - 1

Administrative Services Division - 1

External Affairs Division - 1

Technology Services Division - 8

#### FY 2015

Director's Office – 1

Member Services Division - 9

Financial Services Division - 13

Administrative Services Division - 3

Internal Audit - 1

External Affairs Division - 1

Technology Services Division - 4

### **Variable Payment History in the ASRS**

In accordance with the guidelines set forth by ADOA, the variable compensation strategies used by the ASRS over the past three fiscal years included goal-based incentives, spot incentives, and meritorious service leave awards. These strategies did not result in changes to employees' base salaries, but rather, were one-time payments. The strategies employed are defined as follows:

- **Spot Incentives** were awarded in recognition of *extraordinary* achievements that go beyond the everyday work approach and that result in efficiencies, cost savings, or improved productivity. This investment in ASRS staff has been shown to provide motivation for innovative thinking and to enhance employee satisfaction and engagement.
- **Goal-Based Incentives** (awarded in FY 2014 and FY 2015) have given ASRS management the opportunity to recognize and reward employees based on their

contributions to the achievement of the priorities, goals, and objectives outlined in the ASRS Five-Year Strategic Plan and Operational Goals and Objectives.

- **Meritorious Service Leave Awards** were used to acknowledge an employee for exemplary service and performance. The *ASRS Employee PRIDE Rewards and Recognition Program* is used to guide the implementation of this incentive and to motivate the workforce.

### ASRS Variable Payment Results

Fiscal Year	Average Number of Filled Positions	Number of Employees Receiving Spot Incentives	Average Amount of Spot Incentives per Employee	Number of Employees Receiving Goal-Based Incentives	Average Amount of Goal-Based Incentives per Employee	Number of Employees Receiving Meritorious Service Leave Awards	Average Amount of Meritorious Service Leave Awards (in hours) per Employee
2013	224	192	\$601	N/A	N/A	6	8
2014	229	91	\$465	180	\$1112	18	7.78
2015*	230	92	\$450	169	\$1217	16	8.75

\*Complete statistics on awards distributed in FY15 can be found in Appendix A

### Staffing Conditions – Turnover

Ongoing analysis indicates that the primary reasons for employee turnover at the ASRS are those related to personal changes, rather than dissatisfaction with the work environment. Specifically, personal factors such as relocation, commuting distance, and retirement are more often mentioned in resignation letters and exit interviews than reasons such as management, pay, and work situation.

Certain vacancies have proven to be more difficult to fill than others. Positions in the Technology Services Division (TSD), which require uniquely specialized skills and expertise, continue to take more time to successfully fill. The initial search phase and the interview process which follows typically run 2-3 times longer than recruitments for positions outside of TSD. In calendar year 2014, the average time from initial posting to employee start date for 14 TSD positions was 128 days while the same process averaged 48 days for 36 non-TSD positions. And in the first 6 months of calendar year 2015, the average time from initial posting to employee start date for 3 TSD positions was 109 days while the same process averaged 58 days for 9 non-TSD positions.

### Current Hiring Freeze

Due to the State's current economic situation and Governor Doug Ducey's stated efforts to shrink the size of Arizona State government, effective February 1, 2015, the Arizona Department of Administration (ADOA), on instruction from Governor Ducey, implemented a hiring freeze for all executive agencies, boards, and commissions.

Exceptions to the hiring freeze are made on the basis of positions which are deemed vital to and directly involved in providing for the health or safety of the public or of State employees, directly involved in the collection or investment of State revenues, or otherwise deemed "mission critical." A request to designate a vacant position as mission critical requires justification and approval of the ASRS Director and recruitment for such a position may occur only after approval has been obtained from the ASRS Director. Within those guidelines, the ASRS has been instructed that it may fill only 60% of positions which were vacant as of February 1, 2015, and which have become vacant after that date. (For the ASRS, we will hold 4 full-time positions vacant until further direction on the statewide hiring freeze.)

To date, Human Resources, along with business program areas, have conducted successful recruitments for ten positions, six of which have been filled with internal candidates and the other four vacancies were filled with external candidates. At this time, there are seven additional vacant positions designated by the ASRS Director as mission critical and external recruitments for six of those are currently underway.

	Filled	In Process	On Hold
TSD Recruitments	3	2	1
Non-TSD Recruitments	7	4	0

**Conclusions**

The ASRS is operating at an effective capacity and is able to achieve its priorities, goals and objectives.

Further, ASRS performance and capacity compare favorably to industry peers. The ASRS will continue to utilize approved compensation strategies and, with changes forecast for the administration of base salary adjustments as well as variable compensation strategies, looks forward to increased autonomy in these functions. The result of these changes is anticipated to be the increased ability to achieve the agency's goal of retaining a highly professional and capable staff who exemplify the ASRS values and vision.

Although vacancies in TSD continue to take longer to fill than those in other areas, recruitments have been completed successfully with the implementation of strategies to cast a wider net for applicants with the appropriate combination of skills, experience, and certification. As needed, external resources are utilized to ensure an appropriate complement of staff to complete planned projects.

Due to the natural course of employee movement, and taking into account the addition in FY 2016 of five full-time positions to the ASRS budgeted workforce, it is anticipated that there will be ongoing recruitment activities for mission-critical positions during the hiring freeze.

# Appendix A

Appendix A: Results of Variable Compensation Strategies - Fiscal Year 2015

190	eligible employees
182	received Variable Compensation
95.8%	of eligible employees received Variable Compensation

169	received Goal-Based awards
88.9%	of eligible employees received Goal-Based awards
92.9%	of Variable Compensation recipients received Goal-Based awards
\$205,732.52	total amount distributed in Goal-Based awards
\$1,217.35	average amount received in Goal-Based awards
\$3,000.00	highest amount received in Goal-Based awards
\$70.00	lowest amount received in Goal-Based awards

92	received Spot awards
48.4%	of eligible employees received Spot awards
50.5%	of Variable Compensation recipients received Spot awards
\$41,450.00	total amount distributed in Spot awards
\$450.54	average amount received in Spot awards
\$1,600.00	highest amount received in Spot awards
\$100.00	lowest amount received in Spot awards

16	received Meritorious Service Leave awards
8.4%	of eligible employees received Meritorious Service Leave awards
8.8%	of Variable Compensation recipients received Meritorious Service Leave awards
140.0 hours	total amount distributed in Meritorious Service Leave awards
8.75 hours	average amount received in Meritorious Service Leave awards
16.0 hours	highest amount received in Meritorious Service Leave awards
4.0 hours	lowest amount received in Meritorious Service Leave awards

80	received BOTH Goal-Based and Spot awards
42.1%	of eligible employees received BOTH Goal-Based and Spot awards
44.0%	of Variable Compensation recipients received BOTH Goal-Based and Spot awards

89	received Goal-Based awards ONLY
46.8%	of eligible employees received Goal-Based awards ONLY
48.9%	of Variable Compensation recipients received Goal-Based awards ONLY

12	received Spot awards ONLY
6.3%	of eligible employees received Spot awards ONLY
6.6%	of Variable Compensation recipients received Spot awards ONLY

1	received Meritorious Service Leave awards ONLY
0.5%	of eligible employees received Meritorious Service Leave awards ONLY
0.5%	of Variable Compensation recipients received Meritorious Service Leave awards ONLY

\$1,365.65	average amount received by employees awarded Variable Compensation
2.87%	average percentage of base salary received by employees awarded Variable Compensation
\$4,515.00	highest amount received in Variable Compensation (5% of base salary)
\$100.00	lowest amount received in Variable Compensation (.17% of base salary)

\$247,182.52	total distributed in Variable Compensation awards
96.9%	percentage of budgeted funds spent (2% of personal services)
\$7,957.48	remainder of budgeted funds

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

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**MINGUS UNION HIGH SCHOOL DISTRICT**

**MAY, 2015**

ARIZONA STATE RETIREMENT SYSTEM  
MINGUS UNION HIGH SCHOOL DISTRICT  
MAY, 2015

The audit of Mingus Union High School District was completed May 13, 2015, for the period July 1, 2011 through June 30, 2014.

The audit objectives are to determine whether Mingus Union High School District is in compliance with Arizona State Retirement System (ASRS) statutes governing the following:

- Eligible compensation and required contributions reported to the ASRS.
- Accurate and timely enrollment of all eligible employees.
- Reporting and remitting of the employees' and employer's share of contributions.
- Medical and dental insurance premium benefits payable to retired employees.
- Retirees' return to work.
- Termination incentive programs.

### **SUMMARY OF FINDINGS:**

Based on the results of the work performed to meet the above audit objectives, the following statements summarize the findings presented to Mingus Union High School District:

#### **Mingus Union High School District:**

- **Did not remit the alternate contribution due on all eligible wages for ten of its return to work retirees.**
- **Did not remit ASRS contributions for six employees who worked at least twenty hours per week for at least twenty weeks in one or more fiscal years.**
- **Applied and remitted contributions on two employee lump sum payments for accumulated leave upon termination of employment.**

### **BACKGROUND**

Mingus Union High School District joined the ASRS July 1, 1960 by executing an Application and Social Security 218 agreement. Mingus Union High School District currently has approximately 140 employees contributing to the ASRS.

### **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 audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2011 through June 30, 2014. The auditor reserves the right to expand the scope of the audit when circumstances dictate discrepancies with ASRS statutes or federal laws. The auditor reviewed pertinent documentation and interviewed personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

ARIZONA STATE RETIREMENT SYSTEM  
MINGUS UNION HIGH SCHOOL DISTRICT  
MAY, 2015

- Review of the Social Security 218 agreement to determine eligible employees.
- Review of the employer payroll records and related ASRS reports.
- Review of employees' time sheets and payroll records to determine eligibility.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.
- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.
- Determined compliance with ARS 38-749(D)(1) to conclude whether eligible compensation is increased for benefit calculation purposes.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

**AUDITOR COMMENTS:**

Mingus Union High School District personnel were cooperative, informative and helpful in providing time reports, payroll records, and other information necessary to effectively complete the ASRS audit. Audit findings and recommendations were discussed and issues resolved in a timely manner.

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

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**MINGUS UNION HIGH SCHOOL DISTRICT**

**FINDINGS AND RECOMMENDATIONS**

**MAY, 2015**

ARIZONA STATE RETIREMENT SYSTEM  
MINGUS UNION HIGH SCHOOL DISTRICT  
RECOMMENDATIONS

**FINDING 1:**

**Mingus Union High School District did not remit the alternate contribution due on all eligible wages for ten of its return to work retirees.**

A.R.S. § 38-766.02 provides the guidelines for payment of the alternate contribution rate (ACR) for retirees who work after retirement. According to the statute, “an employer shall pay contributions at an alternate contribution rate on behalf of a retired member who returns to work in any capacity in a position ordinarily filled by an employee.” The ACR is to be “applied to the compensation, gross salary or contract fee of a retired member who meets the requirements of this section.”

Mingus Union High School District had ten return to work retirees where no alternate contribution was remitted on all eligible wages.

The estimated ACR due, excluding interest, as determined by this audit is as follows:

Total Gross Earnings	<u>\$201,523</u>
Total Estimated Alternate Contribution Due	<u>\$18,041</u>

**Recommendation:**

**Mingus Union High School District should contact its Contributions Accounting representative at the ASRS to make arrangements for payment, including interest, of the alternate contribution due.**

**Employer Response:**

The district agrees with the audit finding that on seven of the employees reviewed, no alternative contribution was remitted to the ASRS. In addition, on three of the employees, only 12 months of the alternate contribution had been remitted and none on their second year of return.

The district will work with its ASRS representative to remit the amount due including interest (\$18,041). The corrective action to be taken to avoid this situation in the future will be to have an item added to our check-off list where an employee will indicate upon hire that they were retirees who participated in the ASRS.

**FINDING 2:**

**Mingus Union High School District did not remit ASRS contributions for six employees who worked at least twenty hours per week for at least twenty weeks in one or more fiscal years.**

A.R.S. § 38-711, paragraph 23 defines an employee eligible to be a member in part as an employee who is “engaged to work at least twenty weeks in each fiscal year and at least twenty hours each week.” This is the basis for what is called the 20/20 eligibility criteria. A.R.S. § 38-736 states that member “contributions are required as a condition of employment and shall be made by payroll deductions. Member contributions shall begin simultaneously with membership in ASRS.”

ARIZONA STATE RETIREMENT SYSTEM  
MINGUS UNION HIGH SCHOOL DISTRICT  
RECOMMENDATIONS

Six employees of Mingus Union High School District worked at least twenty hours per week for twenty or more weeks during the fiscal year without paying contributions when they first became eligible.

The ASRS Financial Services Department will generate invoices for the employees' portion of the contribution due after payment is made by Mingus Union High School District. Mingus Union High School District will be responsible to send these invoices to each employee.

The gross unreported earnings, employer and employee contributions and accrued interest due as determined by this audit are as follows:

Total Unreported Eligible Gross Earnings	<u>\$87,338</u>
Member Contributions	\$9,777
Employer Contributions	\$9,777
Estimated Interest Due	\$2,800
Total Estimated Due ASRS	<u>\$22,354</u>

**Recommendations:**

- 1. ASRS contributions should be withheld from employees' earnings when an employee is engaged to work at least twenty weeks in each fiscal year and at least twenty hours per week (20/20 eligibility criteria) or when his or her status changes and he or she is reasonably expected to do so.**
- 2. The employer should have all eligible non-contributors complete online the ASRS enrollment and beneficiary forms, if applicable, so that contributions will be properly processed.**

**Employer Response:**

The district agrees that for six employees reviewed who worked at least twenty hours per week for at least twenty weeks, no ASRS contributions were remitted.

The district will remit the employer contributions and interest on both the members and employees contributions (\$12,576.02). The district will better track part-time employees and apply the 20/20 rule in the future.

**FINDING 3:**

**Mingus Union High School District Applied and remitted contributions on two employees' lump sum payments for accumulated leave upon termination of employment.**

A.R.S. § 38-711 paragraph 7 subdivision (a) states that compensation "does not include: Lump sum payments, on termination of employment, for accumulated vacation or annual leave, sick leave, compensatory time or any other form of termination pay...." This exclusion from compensation, per paragraph 5 subdivision (b), applies "to members whose membership in ASRS was effective on or after January 1, 1984." Contributions were withheld on two employee's termination pay.

ARIZONA STATE RETIREMENT SYSTEM  
MINGUS UNION HIGH SCHOOL DISTRICT  
RECOMMENDATIONS

The gross earnings and employer and employee contributions to be credited to the employer's account, as determined by this audit are as follows:

Total Gross Earnings	<u>\$9,074</u>
Member Contributions	1,011
Employer Contributions	1,011
Total Credit	<u>\$2,022</u>

**Recommendation(s):**

- 1. Mingus Union High School District should contact its Contributions Accounting representative at the ASRS to make arrangements to take this available credit.**
- 2. Mingus Union High School District should not adjust the amount it owes to the ASRS by reducing it by the amount owed by the ASRS because the accounts are separate.**

**Employer Response:**

The district agrees with the finding that it withheld and made contributions on vacation pay to employees upon termination.

The district will cease making contributions on lump sum termination payments.

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

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**PARAMOUNT EDUCATION STUDIES, INC.**

**JUNE, 2015**

The audit of Paramount Education Studies, Inc. was completed June 16, 2015, for the period July 1, 2011 through June 30, 2014.

The audit objectives are to determine whether Paramount Education Studies, Inc. is in compliance with Arizona State Retirement System (ASRS) statutes governing the following:

- Eligible compensation and required contributions reported to the ASRS.
- Accurate and timely enrollment of all eligible employees.
- Reporting and remitting of the employees' and employer's share of contributions.
- Medical and dental insurance premium benefits payable to retired employees.
- Retirees' return to work.
- Termination incentive programs.

### **SUMMARY OF FINDINGS:**

Based on the results of the work performed to meet the above audit objectives there were no findings presented to Paramount Education Studies, Inc.

### **BACKGROUND**

Paramount Education Studies, Inc. joined the ASRS April 1, 2003, by executing an Application and Social Security 218 agreement. Paramount Education Studies, Inc. currently has approximately 28 employees contributing to the ASRS.

### **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 audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2011 through June 30, 2014. The auditor reserves the right to expand the scope of the audit when circumstances dictate discrepancies with ASRS statutes or federal laws. The auditor reviewed pertinent documentation and interviewed personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

- Review of the Social Security 218 agreement to determine eligible employees.
- Review of the employer payroll records and related ASRS reports.
- Review of employees' time sheets and payroll records to determine eligibility.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.

ARIZONA STATE RETIREMENT SYSTEM  
PARAMOUNT EDUCATION STUDIES, INC.  
JUNE, 2015

- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.
- Determined compliance with ARS 38-749 (D) (1) to conclude whether eligible compensation is increased for benefit calculation purposes.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

**AUDITOR COMMENTS:**

Paramount Education Studies, Inc. personnel were cooperative, informative and helpful in providing time reports, payroll records, and other information necessary to effectively complete the ASRS audit.

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

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**ACCELERATED LEARNING CENTER**

**JULY 14, 2015**

ARIZONA STATE RETIREMENT SYSTEM  
ACCELERATED LEARNING CENTER  
JULY 14, 2015

The audit of Accelerated Learning Center was completed in May, 2015 for the period July 1, 2011 through June 30, 2014.

The audit objectives are to determine whether the Accelerated Learning Center is in compliance with Arizona State Retirement System (ASRS) statutes governing the following:

- Eligible compensation and required contributions reported to the ASRS.
- Accurate and timely enrollment of all eligible employees.
- Reporting and remitting of the employees' and employer's share of contributions.
- Medical and dental insurance premium benefits payable to retired employees.
- Retirees returning to work.

**SUMMARY OF FINDINGS:**

Based on the results of the work performed to meet the above audit objectives, the following statements summarize the findings presented to Accelerated Learning Center:

- 1. Accelerated Learning Center had not remitted the alternate contribution rate (ACR) payments for its retirees who have returned to work.**
- 2. The Accelerated Learning Center did not remit ASRS contributions on all eligible compensation for one employee.**
- 3. The Accelerated Learning Center remitted contributions for one individual who was no longer eligible to contribute to the ASRS.**
- 4. The Accelerated Learning Center had not ensured that all retirees returning to work under A.R.S. § 38-766.01 complied with the requirement that they acknowledge the provisions of the statute in writing within thirty days of returning to work.**

**BACKGROUND**

Accelerated Learning Center joined the ASRS on July 1, 2001 by executing an Application and Social Security 218 Agreement. Accelerated Learning Center currently has approximately 10 employees contributing to the ASRS.

**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 audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2011 through June 30, 2014. The auditor reserved the right to expand or contract the scope of the audit when circumstances dictate or when discrepancies were noted with state statutes or federal laws. The auditor reviewed pertinent documentation and interviewed Accelerated Learning Center personnel from the Administration and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting

ARIZONA STATE RETIREMENT SYSTEM  
ACCELERATED LEARNING CENTER  
JULY 14, 2015

ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

- Review of the Social Security 218 Agreement to determine eligible employees.
- Review of the employer payroll records and related ASRS reports.
- Review of employees' time sheets and payroll records to determine eligibility.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.
- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.
- Determined compliance with ARS 38-749 (D) (1) to conclude whether eligible compensation is increased for benefit calculation purposes.
- Other detailed testing as required to meet the audit objectives.

**AUDITOR COMMENTS:**

Accelerated Learning Center personnel were cooperative, informative and very helpful in providing time reports, payroll records, and other information necessary to effectively complete the ASRS audit. Audit findings and recommendations were discussed and issues resolved timely. Amounts owed were paid promptly.

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

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**ACCELERATED LEARNING CENTER**

**FINDINGS AND RECOMMENDATIONS**

**JULY 14, 2015**

ARIZONA STATE RETIREMENT SYSTEM  
ACCELERATED LEARNING CENTER  
RECOMMENDATIONS

**FINDING 1:**

**The Accelerated Learning Center had not remitted the alternate contribution rate (ACR) payments for its retirees who have returned to work.**

A.R.S. § 38-766.02 requires that an employer “shall pay contributions at an alternate contribution rate on behalf of a retired member who returns to work in any capacity in a position ordinarily filled by an employee of the employer”. The School had four retirees employed in fiscal year 2013, and two retirees employed in fiscal year 2014, for which they had not paid any ACR.

The ACR is a new requirement that went into effect for fiscal year 2013. The School was informed about the need to make payments, and they submitted them to ASRS during the audit. School representatives contacted the ASRS to learn how to use the online process correctly. The amounts owed, including interest, were all remitted properly before the closing conference.

The gross eligible earnings and employer ACR payments as determined by this audit for the two fiscal years are as follows:

<b>Total Retirees' Gross Earnings</b>	<b><u>\$320,098</u></b>
<b>Employer ACR Contributions</b>	<b>28,272</b>
<b>Interest Paid</b>	<b>3,493</b>
<b>Total Paid to ASRS</b>	<b><u>\$31,765</u></b>

**Recommendations:**

The School should pay all current and future ACR amounts owed in a timely manner.

**Employer Response:**

All past ACR amounts (\$31,765) have been remitted to ASRS.

All current ACR amounts are being paid in a timely manner.

All future ACR amounts will be paid in a timely manner.

**FINDING 2:**

**The Accelerated Learning Center did not remit ASRS contributions on all eligible compensation for one employee.**

A.R.S. § 38-711(23) defines an employee eligible to be a member in part as an employee who is “engaged to work at least 20 weeks in each fiscal year and at least 20 hours each week.” This is the basis for what is called the 20/20 eligibility criteria. A.R.S. § 38-736 states that member “contributions are required as a condition of employment and shall be made by payroll deductions. Member contributions shall begin simultaneously with membership in ASRS.”

One employee of the School worked at least 20 hours per week for 20 or more weeks during the fiscal year without paying contributions when he first became eligible. The employer began remitting contributions on the 21<sup>st</sup> week rather than the 20<sup>th</sup> week of working 20 or more hours.

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The gross unreported earnings, employer and employee contributions and accrued interest due as determined by this audit are as follows:

<b>Total Unreported Eligible Gross Earnings</b>	<b><u>580</u></b>
<b>Member Contributions</b>	<b>67</b>
<b>Employer Contributions</b>	<b>67</b>
<b>Estimated Interest Due</b>	<b>9</b>
<b>Total Estimated Due ASRS</b>	<b><u>\$ 143</u></b>

**Recommendations:**

1. The employer should notify each eligible employee when there is a change in eligibility status. ASRS contributions should be withheld from employees' earnings when an employee is engaged to work at least 20 weeks in each fiscal year and at least 20 hours per week (20/20 eligibility criteria) or when his or her status changes and he or she is reasonably expected to do so. For those employees who work irregularly from one week to the next, contributions should be withheld no later than the beginning of the 20<sup>th</sup> week of working 20 or more hours.
2. The employer should remit the employer retirement contributions, LTD contributions and interest, as calculated and billed.
3. The employer should distribute to the employee the invoice that will be generated for the employee's retirement and LTD contributions.

**Employer Response:**

All eligible employees will be notified of changes in their eligibility status.

All retirement contributions, LTD contributions, LTD contribution and interested will be calculated and billed.

All contributions will be remitted and distributed in a timely manner.

**FINDING 3:**

**The Accelerated Learning Center remitted contributions for one individual who was no longer eligible to contribute to the ASRS.**

A.R.S. § 38-711(23) defines an employee eligible to be a member in part as an employee who is "engaged to work at least 20 weeks in each fiscal year and at least 20 hours each week." This is the basis for what is called the 20/20 eligibility criteria. Members who work fewer than 20 hours per week are not eligible to participate at all.

The School had one employee who changed from working full-time in one fiscal year to working 16 hours per week in the subsequent fiscal year. Contributions were remitted for this newly ineligible employee for the first three pay periods in the ineligible year.

The gross ineligible earnings, employer and employee pension and LTD contributions as determined by this audit are as follows:

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<b>Total Ineligible Gross Earnings</b>	<b>\$1,417</b>
<b>Ineligible Member Pension Contributions</b>	<b>160</b>
<b>Ineligible Member LTD Contributions</b>	<b>4</b>
<b>Ineligible Employer Pension Contributions</b>	<b>160</b>
<b>Ineligible Employer LTD Contributions</b>	<b>4</b>
<b>Total Estimated to be Credited to Employer</b>	<b><u>\$ 328</u></b>

**Recommendations:**

1. The School should request a credit for the contributions on the employee's reported wages identified as ineligible in the audit.
2. The School should return to its employee any ineligible amounts that were withheld from the employee and have been credited to the School, after the School receives the credit.
3. The School should reassess its employees' eligibility at the end of every fiscal year for those employees whose work hours have changed.

**Employer Response:**

A request for credit for employee's reported wages identified as ineligible in the audit was made.

When credit received, it will returned to employee.

Employees' eligibility will be reassessed at the end of every fiscal year for those employees whose work hours have changed.

**FINDING 4:**

**The Accelerated Learning Center had not ensured that all retirees returning to work under A.R.S. § 38-66.01 complied with the requirement that they acknowledge the provisions of the statute in writing within 30 days of returning to work.**

A.R.S. § 38-766.01 provides the guidelines for retirees who wish to work after retirement. In addition to the requirements that the retiree have attained normal retirement age; have terminated employment at least 12 months before returning to work; and if a teacher, no longer be subject to the statutes regarding tenure; written documentation is required within 30 days according to A.R.S. § 38-766.01(C). If the retiree complies with these requirements, he or she shall not pay contributions or accrue credited service, retirement benefits or long-term disability program benefits.

The School had three retirees who had returned to work as direct employees, working 20/20. These retirees should have completed the Return to Work (RTW) Form. Representatives of the School were informed of this requirement at the beginning of field work and promptly completed online RTW Forms for its two current working retirees. The School was unable to obtain a RTW Form for the one employee who is no longer employed.

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**Recommendations:**

In the future, the School should have any newly hired retirees who meet 20/20 eligibility complete the online RTW Form within 30 days of commencing employment.

**Employer Response:**

All newly hired retirees who meet 20/20 eligibility will complete the online RTW Form within 30 days of commencing employment.

**STATUS OF INTERNAL AUDITS  
FOR THE 12 MONTHS ENDED (June 2015)**

2014/15 <u>AUDITS</u>	<u>HOURS BUDGETED</u>	<u>ACTUAL HOURS WORK YTD</u>	<u>PERCENT OF HOURS UTILIZED</u>	<u>ESTIMATED</u>		<u>EXPLANATION OF ACTUAL HOURS THAT EXCEED BUDGET BY MORE THAN 10%</u>
				<u>HOURS REMAINING</u>	<u>TOTAL HOURS WHEN COMPLETE</u>	
Service purchase invoices	150	170	113%	(20)	170	
Investment trade tickets	550	330	60%	220	330	
Fraud hotline/internal investigations	200	174	87%	26	174	
Employer audits	4,250	4,024	95%	226	4,024	
Continuous audit monitoring	250	229	92%	21	229	
Pension/survivor final audit	200	210	105%	(10)	210	
Refunds processing	150	155	103%	(5)	155	
audit follow-up	150	170	113%	(20)	170	
Census data Gasb 68	300	316	105%	(16)	316	
Information security	300	367	122%	(67)	367	
QDRO's	300	67	22%	233	67	Completed in July,2015
Software licensing	200	0	0%	200	0	Started July, 2015
<b>TOTALS</b>	<b>7,000</b>	<b>6,212</b>		<b>788</b>	<b>6,212</b>	
<b>OTHER THAN AUDITS</b>						
Member statement testing	100	70	70%	30	70	
Director requests	150	150	100%	0	150	
Requested audits/other*	150	57	38%	93	57	
Audit plan	100	132	132%	(32)	132	
<b>TOTALS</b>	<b>500</b>	<b>409</b>		<b>91</b>	<b>409</b>	
<b>GRAND TOTAL</b>	<b>7,500</b>	<b>6,621</b>		<b>879</b>	<b>6,621</b>	



# Arizona State Retirement System

## Operations and Audit Committee

### Meeting Schedule for the Calendar Year 2015

Please make note of the following scheduled meetings pertaining to the Operations and Audit Committee of the Arizona State Retirement System (ASRS). The meetings are held in the 14<sup>th</sup> floor conference room of the ASRS Phoenix Office, 3300 North Central Avenue, unless otherwise noted. Meetings are also teleconference to the ASRS Tucson Office, 7660 E. Broadway Blvd., Suite 108.

#### March 10, 2015, Tuesday, 10:30 a.m.

- IT Security, IT Development, Privacy Related Projects
- Internal/Employer Audits
- Quarterly Audit Report (4Q2014)
- Web Steering Committee Update
- UHC Senior Supplement Prescription Payment Letter

#### May 12, 2015, Tuesday, 10:30 a.m.

- GASB 67 & 68 Report
- Dental Program RFP
- Quarterly Audit Report (1Q2015)
- Internal/Employer Audits
- Audit Plan FY 16/17
- Health Care (Discussion #1)

#### June 9, 2015, Tuesday, 11:00 a.m.

- Health Care (Discussion #2)

#### July 14, 2015, Tuesday, 10:30 a.m.

- Internal/Employer Audits
- Quarterly Audit Report (2Q2015)
- Budget Update
- Compensation Strategies FY2015
- Staffing Update

#### September 8, 2015, Tuesday, 10:30 a.m.

- Internal/Employer Audits
- Quarterly Audit Report (3Q2015)
- Health Care (Discussion #3)

#### November 10, 2015, Tuesday 10:30 a.m.

- Internal/Employer Audits
- Web Steering Committee Update
- COOP Functionality Test and Tabletop Exercise Update
- Hiring Freeze Results

Meeting dates and times are subject to change. A copy of the agenda for each meeting will be available at the ASRS offices listed above at least 24 hours in advance of each meeting. Persons with a disability 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.

OAC Action Items:

- Employer compliance with audit items and ASRS responsibility to our members (EE taxes)
- Mr. Smarik and Mr. McNeil wanted to know more about the Fraud Hotline and any associated professional standard requirement
- Dr. Jacob requested periodic progress reports on the audits beyond the quarterly audit hours report
- Dr. Jacob requested staff to provide a list of major functions the ASRS would like to upgrade and strategic initiatives it would like to pursue that are not in the current technology development plan to discuss at a future meeting
- ACR (Substitute Teachers)