

# HOW...

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## **ASRS Employees Deliver Service With PRIDE!**

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### **PROFESSIONALISM**

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

- Displays a friendly, respectful and courteous demeanor even when confronted by adversity
- Has proactive and responsive approach to internal and external customer needs
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability • Has subject matter expertise
- Has critical thinking skills • Has an honest, fair, non-judgmental mind-set
- Is adaptable to beneficial change • Adheres to the ASRS Code of Conduct

### **RESULTS**

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

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

### **IMPROVEMENT**

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

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

### **DIVERSITY**

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

- Encourages an attitude of openness and a free flow of ideas and opinions
- Treats others with dignity and respect
- Works effectively to accomplish goals with teams comprised of dissimilar individuals
- Recognizes and promotes skills in others attained on and off the job

### **EXCELLENCE**

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

- Surpasses member, stakeholder and associate expectations
- Demonstrates a willingness to go the extra mile to engender a positive public image
- Embraces change in a manner that inspires others
- Accepts responsibility and challenges with enthusiasm
- Takes a personal interest in promoting teamwork through effective use of communication (verbal, non-verbal, written and technological techniques)
- Creates a motivated, healthy and productive work environment that celebrates and rewards the accomplishments of others



**ARIZONA STATE  
RETIREMENT SYSTEM**



# ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson  
Director

## AGENDA

### NOTICE OF A COMBINED PUBLIC MEETING AND POSSIBLE EXECUTIVE SESSION OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS AND AUDIT COMMITTEE

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

March 10, 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, March 10, 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 December 9, 2014 Minutes of the OAC Public Meeting and Executive Session ..... Mr. Jeff Tyne

*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.*

3. Presentation, Discussion and Appropriate Action Regarding ASRS Strategic Initiatives for Fiscal Years 2016-2020 Related to Data Security, Privacy Programs and Information Technology Development ..... Mr. Anthony Guarino  
Deputy Director and Chief Operations Officer  
.....Ms. Sara Orozco  
Manager Strategic Planning and Analysis

*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.*

4. Review and Discussion Regarding the Purchase of ASRS Network and Privacy Insurance .... Ms. Martha Rozen  
Chief of Administrative Services  
.....Mr. Russ Levine  
Procurement and Budget Manager

5. Presentation, Discussion and Appropriate Action Regarding the Web Steering Committee Activities ..... Mr. Anthony Guarino  
..... Mr. Dave King  
Assistant Director Member Services  
..... Ms. Sara Orozco  
.....Mr. David Cannella  
Manager of Communications and Media Relations  
..... Ms. Pamela Vozza  
Digital Communications Officer

6. Presentation, Discussion and Appropriate Action Regarding UnitedHealthcare's Senior Supplement Plan Prescription Drug Payment Coupon Letter ..... Mr. Patrick Klein  
Assistant Director External Affairs

7. Review of Recently Conducted Audits
- Catalina Foothills School District
  - Greenlee County
  - Maricopa County
  - Union Elementary School District
  - 2014 Agency & Employer Compliance Follow-up
- ..... Mr. Anthony Guarino  
..... Mr. Bernard Glick  
Chief Internal Auditor

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

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

10. 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.

#### 11. 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 March 3, 2015

#### ARIZONA STATE RETIREMENT SYSTEM

\_\_\_\_\_  
Melanie Alexander Date  
Committee Administrator

\_\_\_\_\_  
Anthony Guarino Date  
Deputy Director and Chief Operations Officer



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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, December 9, 2014  
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 10:32 A.M.

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

Present: Mr. Jeff Tyne, Chair  
Mr. Mike Smarik, Vice-chair (via telephone)  
Dr. Richard Jacob

Absent: Mr. Brian McNeil

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

### 2. Approval of the October 7, 2014 Minutes of the OAC Public Meeting

**Motion:** Dr. Richard Jacob moved to approve the minutes of the October 7, 2014 OAC meetings. Mr. Mike Smarik seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

### 3. Presentation, Discussion and Appropriate Action with Regard to Data Security Initiatives

Mr. Jeff Tyne introduced the item stating the Committee will go into executive session for discussion.

**Motion:** Dr. Richard Jacob moved to go into executive session to discuss the data security initiatives. Mr. Mike Smarik seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

The Committee convened to Executive Session at 10:34 A.M.

The Committee reconvened to Regular Session at 11:20 A.M.

#### **4. Presentation, Discussion and Appropriate Action with Regard to the CEM Benchmarking**

Ms. Jan Hartford, CEM provided information regarding the benefits of benchmarking using peer comparative analysis. Ms. Hartford explained how the peer comparisons are done, and also discussed how the ASRS ranks among its peers. CEM's analysis also explains how the ASRS can make improvements to its score.

Currently, the ASRS spends \$81 per member and annuitant which is below the peer average of \$94. Additionally, the ASRS' service score is 85 which is above the peer median score of 77. The outcome demonstrates the ASRS is a high service, low cost organization.

#### **5. Review of Recently Conducted Audit for Eastern Arizona College**

Mr. Bernard Glick, Chief Internal Auditor presented the audit of the Eastern Arizona College. The audit revealed three findings: 1) the College did not remit the alternative contribution due for 21 of its return to work retirees; 2) the College did not request a refund for remitted contributions on 12 ineligible members; and 3) the College remitted the alternative contribution on excess compensation for two of its return to work retirees.

The employer acknowledged the findings and made the needed modifications. The employer will also conduct a self-audit of the 2013 fiscal year.

#### **6. Presentation, Discussion and Appropriate Action Regarding the 2015 OAC Calendar**

Mr. Guarino presented the proposed calendar for 2015. Dr. Richard Jacob asked about there not being a schedule meeting until March, 2015 and Mr. Guarino responded he did not feel it was a problem, however, if a meeting is needed prior to the March date, one will be set up.

The Committee agreed to the following 2015 dates: March 10, May 12, July 14, September 8, and November 10.

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

There were no requests.

#### **8. Call to the Public**

There were no members of the public in either Phoenix or Tucson.

#### **9. Adjournment**

**Motion:** Dr. Richard Jacob moved to adjourn the December 9, 2014 OAC meetings. Mr. Mike Smarik seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

Mr. Tyne adjourned the meeting at 11:56 p.m.





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Paul Matson  
Director

## MEMORANDUM

**TO:** The Arizona State Retirement System (ASRS) Operations Committee (OC)

**FROM:** Mr. Anthony Guarino, Deputy Director and Chief Operations Officer  
Ms. Sara Orozco, Manager, Strategic Planning and Analysis

**DATE:** March 10, 2015

**RE:** **Agenda Item 3:** Presentation, Discussion and Appropriate Action Regarding ASRS Strategic Initiatives for fiscal years 2016 – 2020 related to Data Security, Privacy Programs, and Information Technology Development

### Purpose

To discuss the agency's 5-year Plan related to Data Security, Privacy Program Development, and Technology Development

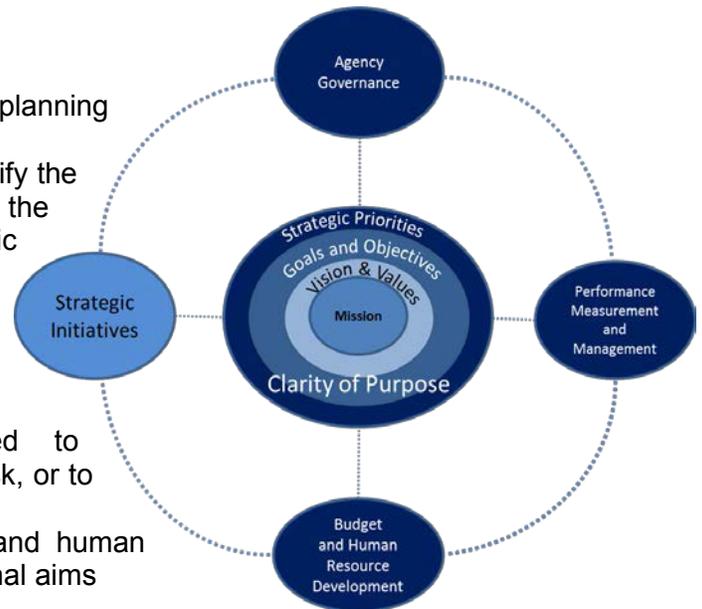
### Recommendation

Informational only, no action required.

### Background

Since 1998, the ASRS has utilized a strategic planning model that utilizes the following principles:

1. Establish a forward-looking agenda and clarify the agency's statutory mission through the development of Vision and Values, Strategic Priorities, and Operational Goals and Objectives
2. Implement strong governance practices
3. Measure and manage organizational performance
4. Implement strategic initiatives designed to improve service to stakeholders, mitigate risk, or to make the agency more efficient
5. Ensure that the agency has the budget and human resources necessary to achieve organizational aims



This model has been very successful for the ASRS, allowing it to transform itself into a high-performing, cost effective operation. One of the key elements of the ASRS's strategic initiatives over the years has been the effective deployment of technology.

Since the conclusion of the ASRS Information Technology Plan in 2008, Senior and Executive Management has reviewed and approved strategic initiatives for a one-year period. However, over the past six months, Management has concluded that a longer planning horizon is warranted due to the following:

1. A data security review was completed in the summer of 2014. Although the ASRS performance in this review was adequate, Management has expressed a strong desire to further mature and strengthen the agency's data security program. This effort

included budget requests for additional software and hardware, and also additional human resources (both FTE and contract).

2. The agency took steps to strengthen its privacy program by hiring a full-time privacy officer that will review the agency's privacy program and make recommendations for improvements, if necessary.
3. The agency, in addition to the ongoing Oracle Modernization effort, approved 2 large scale Technology Development projects, meaning that the agency will have 3 multi-year efforts in process at the same time.

A brief discussion of the suggested 5-year plan for each of the three priorities and how they impact each other is discussed below.

### **Data Security Initiatives:**

The ASRS conducted a security audit and risk assessment in the spring of 2014. As a result of these exercises, the ASRS identified a need for additional human resources and also some additional hardware/software to mitigate data security risk and raise the agency's security profile to the 'Managed' level for 12 of the 16 Security Zones identified in the CAaNES audit.

The additional items identified to meet the agency's objective have been included in the agency's budget request, which has been recommended for approval by OSPB staff. If the agency's request is not approved, Management will meet to discuss other whether other options are available so the agency can still meet its desired objective.

Management has included its planned initiatives related to data security as an attachment for informational purposes. Currently, staff has identified three years of activities. As future security assessments are done, staff anticipates additional initiatives will be added.

At this time, Management does not anticipate that the data security initiatives underway will impact the Technology Development Plan or Privacy Program Development Plan.

### **Privacy Program Development Initiatives**

As a result of the agency's technology risk assessment and a desire to heighten the agency's data security profile, the agency increased the amount of permanent resources dedicated to privacy activities from a part-time to a full-time position.

A full-time privacy officer has been hired. The position reports to the Deputy Director. The privacy officer has developed a set of initiatives needed to develop a privacy program for the agency. The list of initiatives has been included for informational purposes as an attachment.

Management has already identified one privacy related project (Develop a Unique Account Number) and included it in the Technology Development Plan. At this time, the Privacy Officer has not identified any other technology development needs; however, staff anticipates that as further analysis is conducted, it is possible that other technology development will be recommended. Sufficient flexibility has been built into the Technology Development Plan so that other initiatives can be considered as needed.

### **Technology Development Initiatives**

Management has identified the following strategic priorities related to technology development for the next 5-year period:

1. Ensure that the Oracle Modernization project meets its original implementation date of December 2018 and achieves its expected outcomes.
2. Ensure that the benefit disbursement project is tested and ready to go live for the January 2019 pension payroll.

3. Begin the analysis needed to implement a unique member account number in year 1, with a goal of completing the full conversion by the end of the 5-year period. Early emphasis should be targeted toward:
  - analyzing business use and making policy recommendations
  - developing project objectives, requirements, and a firmer project estimate
  - implementing quick hits that require no development hours
  - implementing service requests that move us toward our desired objectives
  - building future infrastructure into POL during Oracle Modernization
4. Ensure that sufficient technology hours are available to maximize re-engineering capabilities during the Oracle Modernization effort, and available in the event new privacy-related projects are recommended.
5. Ensure that sufficient technology resources are available to maintain current systems and implement necessary system upgrades for the 5-year period.

## ASRS 5-Year Technology Development, Data Security, and Privacy Plan: FY16 - 20

Data Security and Privacy Plan	FY 16	FY 17	FY 18	FY 19	FY 20	5-Year Total: Budgeted Hours	Funding Source	Comments
	July 2015 to June 2016 Hours	July 2016 to June 2017 Hours	July 2017 to June 2018 Hours	July 2018 to June 2019 Hours	July 2019 to June 2020 Hours			
<b>Privacy Program Development</b>	1,700	1,700	1,700	1,700	1,700	8,500	Operating	
<b>Data Security Initiatives</b>	10,130	12,220	12,220	12,220	12,220	59,010	Operating	
Upgrades/New Installations	2,280	7,220	10,820	8,554	8,554	37,428		*FY19/20 initiatives will be determined as current initiatives are completed and a new audit is completed
Technical/Process Management	7,850	5,000	1,400	3,666	3,666	21,582		
<b>TOTAL - DATA SECURITY/PRIVACY</b>	<b>11,830</b>	<b>13,920</b>	<b>13,920</b>	<b>13,920</b>	<b>13,920</b>	<b>67,510</b>		

**Assumptions**

- Assumes that the ASRS is able to hire the additional resources requested in its budget for data security risk mitigation, resulting in a total of 5 FTE and 2 contract employees
- FTE's will work on data initiatives 1,700 hours per year (5\*1,700), and contract employees for 1,860 hours per year (2\*1,860), for a total of 12,220 hours

Technology Development Plan	FY 16	FY 17	FY 18	FY 19	FY 20	5-Year Total: Budgeted Hours	Funding Source	Comments
	July 2015 to June 2016 Hours	July 2016 to June 2017 Hours	July 2017 to June 2018 Hours	July 2018 to June 2019 Hours	July 2019 to June 2020 Hours			
<b>Priority #1: Oracle Modernization</b>	20,000	20,000	20,000	10,000		70,000	Oracle Modernization	Complete all projects prior to 12/31/2018
Service Purchase	10,000					10,000		Scrum Team 1
Health Insurance	10,000	6,500				16,500		Scrum Team 2
Benefits Accounting		10,000	8,000			18,000		Scrum Team 1
New Retiree Processing			2,000	1,500		3,500		Scrum Team 1
Contribution Accounting		3,500	10,000	3,000		16,500		Scrum Team 2
Accounts Receivable Ledger				3,500		3,500		Scrum Team 1
Fiscal Year End				2,000		2,000		Scrum Team 2
<b>Priority #2: Benefit Disbursements Project</b>	11,000	11,000	11,000	10,000		43,000	Continuous	Transition from State Street Effective 1/1/2019
Vendor Management	2,500					2,500		Scrum Team 3
General Accounting	8,500	1,500				10,000		Scrum Team 3
Stop Check Payment		2,000				2,000		Scrum Team 3
Fraud Check		4,000				4,000		Scrum Team 3
Generate Payments, Files, Images		3,500	5,500			9,000		Scrum Team 3
Payment Status Updates			2,500			2,500		Scrum Team 3
Payments, Reissues, Advices, Inserts			3,000	3,000		6,000		Scrum Team 3
Generate 1099R				7,000		7,000		Scrum Team 3
<b>Priority #3: Unique Account Number</b>	2,000	2,000	5,000	15,000	21,000	45,000	Operating	Phase in through 6/30/2020
<b>Priority #4: Projects to supplement/complement the above</b>	15,000	15,000	12,000	11,000	20,000	73,000	Continuous/Operating	

SMT will recommend FY2016 projects prior to 6/30/2015

Scrum Team 4

<b>Maintain Curent Systems: System Upgrades</b>	9,200	9,200	9,200	11,200	16,200	55,000	Operating	Scrum Team 5
<b>Maintain Current Systems: Production Support</b>	20,000	20,000	20,000	20,000	20,000	100,000	Continuous/Operating	Production Support Team
<b>TOTAL - DEVELOPMENT</b>	<b>77,200</b>	<b>77,200</b>	<b>77,200</b>	<b>77,200</b>	<b>77,200</b>	<b>386,000</b>		

Assumptions	Totals by Funding Source		
1. A total of 44 resources will be available for development (29 FTEs and 15 consultants)	Operating		170,000
2. FTE's will work on development 1,700 hours per year (29*1,700), and consultants for 1,860 hours per year (15*1,860), for a total of 77,200 hours	77,200	Continuous	146,000
3. A total of 20 FTE's can be funded from the operating budget (20*1,700), or 34,000 hours	34,000	Oracle Modernization	70,000
4. Assumes no legislation during the period (funding or hours)		<b>GRAND TOTAL</b>	<b>386,000</b>

<b>GRAND TOTAL - ALL INITIATIVES</b>	<b>89,030</b>	<b>91,120</b>	<b>91,120</b>	<b>91,120</b>	<b>91,120</b>	<b>453,510</b>		
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## Privacy Program Development Plan: FY15 - 18

#	Fiscal Year	Project/Policy	Tasks	NIST Families
1	2015	Online access to member account	Already can make some corrections online, use of forms, web process, and through if disagreement on calc. and appeal through appeal process. Privacy Notice available online, Consent implied when working in an eligible position for ASRS membership.	IP TR
2	2015	Privacy Program	<ol style="list-style-type: none"> <li>1. incorporate Privacy into Strategic Plan</li> <li>2. Identify Authority Laws, NIST, AICPA</li> <li>3. Governance (High level) OAC reporting, SMT reporting, (Organizational level) PIA</li> <li>4. Operational Life Cycle of Privacy within the agency - document for PO use</li> </ol>	AR-1 AP AP AR-7
3	2015	Privacy-Enhanced System Design and Development	<ol style="list-style-type: none"> <li>1. Implement privacy into new system development moving forward</li> <li>2. Write a scrum story for privacy to use with all applications using PI</li> <li>3. Minimize the use of PI is testing, training and research</li> </ol>	AR-7 DM-3
4	2015	Review Privacy Risks and add to ASRS Risk Assessment (with Strategic Planning and ERMC)	<ol style="list-style-type: none"> <li>1. Evaluate risk</li> <li>2. Evaluate controls to mitigate risk</li> </ol>	AR-2
5	2015	Develop measurements and report on PIA	<ol style="list-style-type: none"> <li>1. Continuous Auditing of privacy of information</li> <li>2. Continuous Reporting and Evaluation of Privacy controls and mitigation of risk</li> </ol>	AR-4 AR-6
6	2015 - 2016	Training	<ol style="list-style-type: none"> <li>1. NEO Privacy Training</li> <li>2. Annual Training</li> <li>3. Quarterly Privacy or Data Safeguard tips</li> <li>4. Meet with Divisions Periodically for Data Safeguard reminders</li> <li>5. Minimize PII used in testing, training and research</li> </ol>	AR-5 AT
7	2015 - 2016	Data Classification	<ol style="list-style-type: none"> <li>1. Identify data</li> <li>2. Quantify number of records</li> <li>3. Identify location</li> <li>4. Classify (protected/unprotected, Sensitivity of data, confidentiality impact if inappropriately accessed, PII, Proprietary, Public Information, etc.)</li> <li>5. Note use of data</li> <li>6. Note any restricted use of data</li> <li>7. Retention Period for data</li> <li>8. Who has access to protected data</li> </ol>	DI-2 SE-1
8	2015 - 2016	Privacy Information Assessment (PIA)	<ol style="list-style-type: none"> <li>1. To determine compliance with state statutes</li> <li>2. To evaluate any gaps in privacy</li> <li>3. To ensure all data is classified, used, stored/retained and destroyed appropriately</li> </ol>	AR-2
9	2015 - 2016	Review Privacy Policy/Notice upon completion of Data Classification	<ol style="list-style-type: none"> <li>1. Review Privacy Policy/Notice to ensure all uses of data are identified following data classification</li> <li>2. Review how we are notifying members of collection and use of data and keep accounting of notifications to members</li> </ol>	TR-1 IP AP AR-8

## Privacy Program Development Plan: FY15 - 18

#	Fiscal Year	Project/Policy	Tasks	NIST Families
10	2015 - 2016	Review and update ASRS Data Classification Policy	1. Cover Classification method used in Data Classification Project	SE-1
11	2016	Third Party Access to Data Policy	1. Vendors 2. Contractors 3. Data sharing agreements and/or contracts verbiage to protect data	AR-3 UL-2 SE-2 DM-2 DI-2 DM-3
12	2015 - 2016	Examine PII Data use /Data Use and Limitations Policy	1. Context of use 2. Reduction of data 3. Data quality and relevance	DI-1 UL-2 SE-2 DM-2 DM-3
13	2015 - 2018	Collection and Storage of PII and Proprietary Data.	1. E-mail 2. Forms 3. Text	DM-1 DM-2
14	2016 - 2018	Policy on Storage of data		DI-1 UL-1 DM
15	2016 - 2018	Retention and destruction/purge of data policy and SOP	1. Member Data Retention Schedule Review and Update 2. Employer Data Retention Schedule Review and Update 3. Investment Data Retention Schedule Review and Update 4. Software for Data Purge of documents that meet retention schedule implementation	DI-1 UL-1 DM
16	2016 - 2018	Review policies on access to data		UL



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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  
**DATE:** February 20, 2015  
**RE:** **Agenda Item #4** Review and Discussion Regarding the Purchase of ASRS Network and Privacy Insurance

### Purpose

To review and discuss the ASRS's purchase of network security and privacy liability insurance.

### Recommendation

Informational only; no action required.

### Background

As an update to the December 2014 presentation to the Operations and Audit Committee (OAC) regarding data security initiatives, ASRS management and staff, in collaboration with the Arizona Department of Administration - Risk Management Division (ADOA-RMD), has completed the diligence process and procured network security and privacy liability insurance. This insurance policy provides coverage for vital privacy breach response services, liability coverage for claims and damages resulting from a privacy/breach incident, as well as risk management and education services.

The annual premium for this coverage is \$129,000. Below is listing of the major services and coverages included with the policy:

#### Privacy Breach Response Services

- Notification, Call Center, Breach Resolution and Mitigation, Legal, Computer and Forensic Experts, and Public Relations and Crisis Management Expenses
  - Limit for Notification, Call Center, Breach Resolution and Mitigation Services is based upon the quantity of affected parties (2 million individuals) rather than a dollar limitation
  - Limit of \$2.5 M for Legal, Computer and Forensic Expert Services, and Public Relations and Crisis Management Expenses

#### Liability Insurance

- Coverage for network security failures, unauthorized access/use, cyber attacks

- Coverage for loss arising from the failure to protect sensitive information
- Coverage for regulatory proceedings brought by a government agency alleging the violation of any state, federal, or foreign identity theft or privacy protection legislation
- Limit of \$5 M for liability coverage. The liability coverage is supplemental to the existing liability coverage extended to the ASRS through ADOA-RMD.

#### Risk Management Tools and Resources and Education Services

- Loss control and risk management tools, online resources, and value-added educational webinars
- Access to “best practices” forums, case studies and guides related to safeguarding information, computer forensics, compliance with applicable laws, and other risk management topics.

Additional reference material produced by the insurer, Beazley Insurance Group, is provided.

As part of the ongoing agency risk assessment process, ASRS staff will regularly review the types and limits of coverage to ensure adequate and appropriate coverage is included.



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## MEMORANDUM

**TO:** The Arizona State Retirement System (ASRS) Operations Committee (OC)

**FROM:** Mr. Anthony Guarino, Deputy Director and Chief Operations Officer  
Mr. Dave King, Assistant Director, Member Services  
Mr. David Cannella, Manager, Communications  
Ms. Sara Orozco, Manager, Strategic Planning and Analysis  
Ms. Pamela Vozza, Digital Communications Officer  
Mr. Trent Kendall, Project Manager, Technology Services

**DATE:** March 10, 2015

**RE:** **Agenda Item #5:** Presentation, Discussion and Appropriate Action Regarding a Web Steering Committee (WSC) Update

### Purpose

To provide the OAC with an overview of progress to date with the conversion of members from paper applications to online self-service.

### Recommendation

Informational only, no action required.

### Background

The Web Steering Committee will discuss progress being made toward converting members to online self-service.

#### **1) Online transactions vs. Paper/mail transactions**

This document breaks down all member-specific transaction types that are now being offered through their secure online myASRS account, compared to those not yet converted.

The most common (highest volume) financial requests can now be initiated online, saving the ASRS and member a great deal of time to begin processing a request. As well, nearly all demographic changes can be completed online, and the login/password combination deemed as a sufficient electronic signature.

#### **2) Review of online accomplishments / implementations in 2014**

This document describes all the new features rolled out to members and employers and 2014.

#### **3) Website Analytics Status Report**

This worksheet graphs out the progress to date in each area of web self-service

## MEMBER Requests Converted to ONLINE

Member Function	% that can be done online vs. paper	Notes
<i>Financial/Disbursement MEMBER Requests available online</i>		
1 Member apply for RETIREMENT	95%	Requires secure login + ER verification + ASRS verification, calculation and eligibility review  <i>*Some are too complex for online submission and/or may require additional supporting documentation from member, depending on scenario</i>
2 Member apply for REFUND		
3 Member request SERVICE PURCHASE INVOICE	100%	Any person can submit a service purchase request, with or without being logged in to their secure account. ASRS reviews and issues invoice to address on file.
4 Retiree apply for RETURN TO WORK	100%	Requires secure login + ER verification + ASRS verification, calculation and eligibility review

## MEMBER Requests Not Converted (still require paper / US Mail)

Member Function	Could be converted?	Notes
<i>Financial/Disbursement MEMBER Requests NOT online</i>		
1 Transfer In/Out service and contributions to another retirement system in AZ (CORP, EORP, PSPRS, etc)	Partially	Future TSD Project to begin the process on the ASRS side and calculate the outgoing value, would still require ASRS and other state agency calculation/approval
2 Enroll in ASRS-provided Health Insurance (for Retirees and LTD members)	Yes	Future TSD Project to allow enrollment in ASRS health plans, would still require vendor + ASRS review
3 Generate service purchase invoice	Partially	Future TSD Project to generate invoice, would be limited to certain calculations and would require ASRS verification of eligibility before payment accepted
4 Recission or reversion of benefit elections	Yes	Future TSD project to make request online, would still require research, calculation, eligibility by ASRS staff
5 Make payment to purchase service credit	No	Must be remitted by mail, either from member or rollover institution, along with other documentation
6 File for Long Term Disability	No	Must be initiated by ER through LTD vendor from initiation
7 File death report	No	These persons do not have ASRS accounts for secure login

**Other Non-Financial MEMBER Requests available online**

1	New Member Enrollment	100%	Requires ER approval/contribution
2	Member Registration for secure login access		Requires ASRS verification on SSN, DOB, Name and ER
3	Member update phone, email, address		Requires secure login
4	Member update marital status, gender		
5	Member create/update beneficiaries		
6	Member execute personalized benefit estimate	90%	Requires secure login <i>*Some are too complex, must be manually calculated and mailed to member</i>
7	Member view estimates for all benefits	100%	Requires secure login
8	Member view balances, contribution history		
9	Member view application status		
10	Member register for counseling meeting		
11	Member send/receive secure email	95%	Requires secure login <i>*Some are so complex that online version is incomplete (ex. RTW)</i>
12	Print Member Statement		
13	Retiree create/update tax withholdings		
14	Retiree create/update direct deposit elections	100%	Requires secure login
15	Retiree create/update beneficiaries	60%	Requires secure login <i>*Some beneficiary changes require re-calculation of benefits/options, so must be requested via paper form (ex. J/S)</i>
16	Retiree view payment history	100%	Requires secure login
17	Retiree view ASRS/ADOA health insurance details		
18	Retiree view benefit calculation details		
19	Retiree view remaining survivor benefits		
20	Print payment advices		
21	Print copy of 1099R		
22	Print pension verification letter		

**Other Non-Financial MEMBER Requests NOT online**

1	Update Member Date of Birth	No	Must still fill out and submit paper form, Requires state-issued ID and/or multiple other forms of ID
2	Update Member SSN	No	
3	Update Member Name	No	

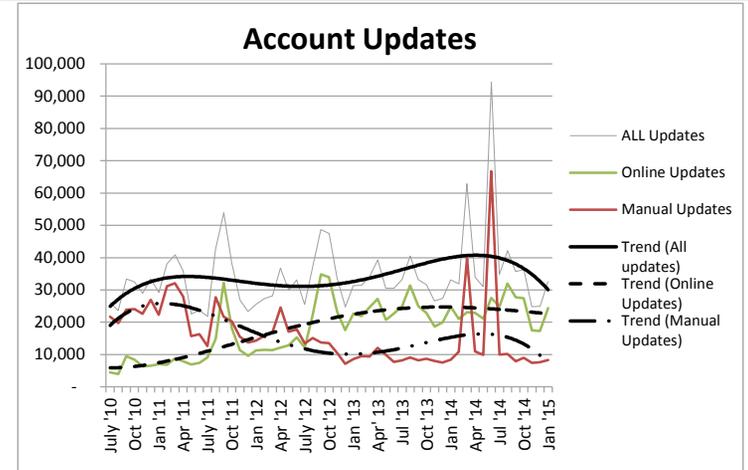
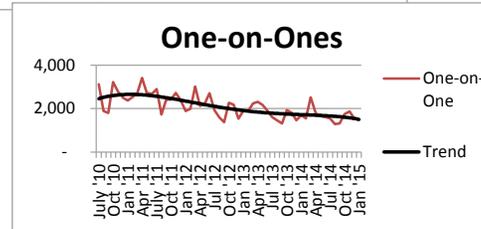
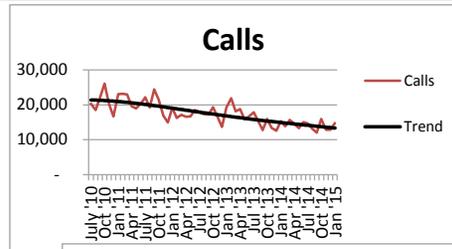
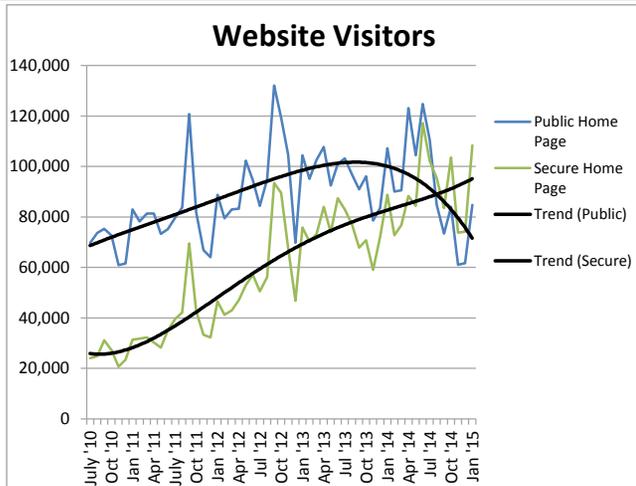
## 2014 Advances in Digital/Online Activities

	Member Email	Employer Email	Social Media	Website	Online Member Education	
<b>As of Jan. 2014</b>	Daily B-Day Cards Quarterly E-News	Ad-Hoc	Ad-hoc Updates on Facebook	Weekly content updates	12 Webcasts/videos 1 Webinar	
January	Daily B-Day Cards, Quarterly E-News	ER Update E-News	<b>Roll out new Twitter page</b>	<b>Roll out Enroll / Register Combo App</b>	<b>Redesign Member Meetings, Create Route 1 Video</b>	
February		Ad-hoc targeted employer emails	Weekly: Social Updates	Weekly: Web Content Updates		
March				<b>Roll out new Public Website</b>	<b>Publish GPS Tool</b>	
April				Daily: Web Content Updates		
May		ER Update E-News			<b>Launch Route 4 Webinar</b>	
June		Ad-hoc targeted employer emails	Daily: Social Updates	<b>Roll out Return-to-Work Smart Form</b>		
July						
August		<b>Roll out new Welcome Cards</b>	GASB Employer Emails + Video	<b>Roll out new LinkedIn page</b>		<b>Publish 'Value of ASRS' Video</b>
September		<b>Roll out new B-day Cards</b>	ER Update E-News		Daily: Web Content Updates	<b>Publish Return-to-Work Training Tool</b>
October						<b>Publish Retirement Tool (Route 2)</b>
November		2 Daily B-day Cards, Monthly New Member Welcome Cards, Quarterly E-News	Ad-hoc targeted employer emails	Daily: Social Updates on FB and Twitter Ad-Hoc updates on LinkedIn		<b>Publish Open Enrollment Video</b>
December					<b>Roll out new Secure Website for Retirees</b>	<b>Launch new app for meetings registration</b>
January		ER Update E-News		Daily: Web Content Updates		
<b>As of Jan. 2015</b>	2 Daily B-day Cards, Monthly Welcome Cards, Quarterly E-News	Ad-hoc targeted emails, Quarterly E-News	Daily social updates across three social mediums	Daily Web Content Updates	20 Webcasts/Videos 3 Interactive Tools 2 Webinars	

# WEB STEERING COMMITTEE STATUS REPORT

## Member Contacts: Online vs. LIVE

## Transactions\*: Online vs. MANUAL

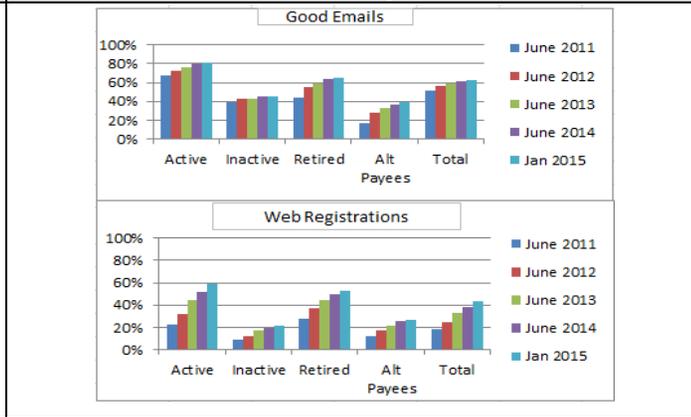


\*Transactions include: enrollment, refund, retirement, address, beneficiaries, tax, direct deposit, contact info, demographics

## Strategic Objectives      Approaching Milestones      Emails / Web Registrations

	2017 Goal	2015 Actual
<b>Member Services Website Objectives</b>		
1. In-person group meetings/webinars scheduled online.	99%	100%
2. Member enrollments submitted online.	99%	95%
3. Refund applications submitted online.	90%	96%
4. Retirement applications submitted online by 2017	75%	70%
5. EPV submitted online by 2017	75%	100%
6. Address changes completed online by 2017	75%	75%
7. Beneficiary changes completed online by 2017	75%	79%
8. Tax changes completed online by 2017	75%	88%
9. Direct deposit changes completed online by 2017	75%	57%
10. Emails for ACTIVE members by 2017	80%	79%
10a. Emails for RETIRED members by 2017	80%	63%
<b>Communications Objectives</b>		
1. Distribute periodic electronic communications		Y
2. Mail at least 1 communication each year to all members		Y
3. Increase overall effectiveness and use of the ASRS website		Y
4. Increase communication touchpoints		Y

2014
-Begin birthday emails to retirees
-Begin targeted emails (beneficiaries, registration, etc)
-Manage content review schedule and updates on CMS
-Develop Digital Marketing plan
-Develop podcasts for the website?
-Develop marketing campaign for all of the new online functionality as well as the new website



## Risks and Issues

1. Risk of public image issue with Social Media
2. Risk of security breach with Social Media, CMS, any third party vendor
3. Risk of implementing new web functionality with no return on investment
4. Limited TSD resources

## Accomplishments

- monthly 'Welcome' emails underway
- New website is LIVE
- GPS is LIVE
- helped roll out OLE Upgrade
- policy, approval and contract for new website
- Daily birthday emails (650 per day), Ret-Elig vs. Non
- Issue quarterly e-newsletters
- Launched social media (FB, twitter, linkedIn)
- Developed social media policies and risks
- Designed and promoted Online Member Statements
- Cancelled annual mailing of printed member statements

## New Trends - Social/Mobile



## MEMORANDUM

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**TO:** Mr. Jeff Tyne, Chair, Operations Committee (OC)

**FROM:** Mr. Anthony Guarino, Deputy Director and Chief Operations Officer  
Mr. Patrick M. Klein, Assistant Director, External Affairs  
Mr. Edward Rapoport, Benefits Administrator

**DATE:** March 10, 2015

**RE:** Agenda Item #6: Presentation, Discussion and Appropriate Action Regarding Errant Medicare Part D Invoices from UnitedHealthcare

### **Purpose**

To inform the OAC of errant UnitedHealthcare's (UHC) invoices mailed to ASRS-sponsored Senior Supplement Plan members in December 2014.

### **Recommendation**

Informational only, no action required.

### **Background**

In early December, 2014, UnitedHealthcare (UHC) erroneously mailed prescription drug invoices to 11,530 enrollees in the ASRS-sponsored Senior Supplement Plan. In effect, the UHC letter and invoice requested retirees to remit \$96.70 per month (or \$1,160.40 per year) to UHC for participation in the Senior Supplement Plan's prescription drug benefit that would be effective January 1, 2015.

An ASRS Trustee brought this mailing to agency attention on December 15, 2014. Contact was made with UHC on December 15 inquiring about this mailing. UHC commented that a year-end computer process mistakenly identified ASRS-sponsored Senior Supplement Plan enrollees as requiring that additional prescription drug payments be initiated in 2015. Though this payment is valid for other group contracts with UHC, ASRS-sponsored enrollees should not have been affected. Unfortunately, they were.

UHC letters, dated December 17, 2014, explaining the mishap were mailed to all 11,530 ASRS-sponsored Senior Supplement Plan enrollees apologizing for the errant letter and invoice they had received. However, 620 members (5.4% of all ASRS Senior Supplement Plan members) had already remitted January's payment. Refunds to enrollees who had paid their errant invoiced amounts were processed by UHC on January 13, 2015 with a mail date no later than January 20, 2015.

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

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS  
CATALINA FOOTHILLS SCHOOL DISTRICT  
DECEMBER, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
CATALINA FOOTHILLS SCHOOL DISTRICT  
DECEMBER, 2014

The audit of Catalina Foothills School District was completed December 9, 2014, for the period July 1, 2011 through June 30, 2014.

The audit objectives are to determine whether Catalina Foothills 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 statement summarizes the findings presented to Catalina Foothills School District:

#### **Catalina Foothills School District:**

- **Did not remit the alternative contribution due for six of its return to work retirees.**
- **Did not remit ASRS contributions for two employees who were engaged to work at least twenty hours per week for at least twenty weeks in one or more fiscal years.**
- **Did not timely inform the ASRS that one retired member was no longer covered through Catalina Foothills School District's dental insurance resulting in ASRS premium benefit overpayments.**

### **BACKGROUND**

Catalina Foothills School District joined the ASRS July 1, 1962 by executing an Application and Social Security 218 agreement. Catalina Foothills School District currently has approximately 570 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

ARIZONA STATE RETIREMENT SYSTEM  
CATALINA FOOTHILLS SCHOOL DISTRICT  
DECEMBER, 2014

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.
- 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.
- Review the salaries of retiring employees to determine whether there is salary spiking during the years prior to the employee retirement.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

**AUDITOR COMMENTS:**

Catalina Foothills 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**

**CATALINA FOOTHILLS SCHOOL DISTRICT**

**FINDINGS AND RECOMMENDATIONS**

**DECEMBER, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
CATALINA FOOTHILLS SCHOOL DISTRICT  
RECOMMENDATIONS

**FINDING 1:**

**Catalina Foothills School District did not remit the alternative contribution due for six of its return to work retirees.**

A.R.S. § 38-766.02 provides the guidelines for payment of the alternative 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.”

Catalina Foothills School District had six return to work retiree’s where no alternative contribution was remitted on eligible wages.

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

<b>Total Gross Earnings</b>	<b><u>\$53,519</u></b>
<b>Total estimated ACR due</b>	<b><u>\$4,816</u></b>

**Recommendation(s):**

1. Catalina Foothills School District should contact its contributions accounting representative at ASRS to make arrangements for payment, including interest, of the alternative contribution due.
2. Catalina Foothills School District should self-audit the return to work retiree’s for the fiscal year beginning July 1, 2014, and remit contributions for all retirees’ earnings.

**Employer Response:**

I contacted the Contribution Accounting Supervisor for Arizona State Retirement System (ASRS), and she provided direction on how to make an ACH payment based upon a spreadsheet she provided to us that includes the Alternative Contribution Rate (ACR) due of \$4,815.59 and the interest associated with that of \$486.84 for a total ACR payment of \$5,302.43. It is our intent to make that payment tomorrow.

Catalina’s Senior Accountant has been working with our Human Resources Director, to develop an approach that will accurately identify all new hires that require an ACR payment. I will attach a copy of the modified that new employees must complete. A copy of this form will be sent to payroll and a copy will be retained in the employee’s personnel file.

The Senior Accountant has been conducting a self- audit of 2014/2015 to ensure that Catalina Foothills is paying the ACR for all employees that require such a payment by the district.

**FINDING 2:**

**Catalina Foothills School District did not remit ASRS contributions for two employees who were engaged to work at least twenty hours per week for at least twenty weeks in one or more fiscal years.**

ARIZONA STATE RETIREMENT SYSTEM  
CATALINA FOOTHILLS SCHOOL DISTRICT  
RECOMMENDATIONS

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.”

Two employees of Catalina Foothills School District were engaged to work 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 employee’s portion of the contribution due after payment is made by Catalina Foothills School District. Catalina Foothills 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:

<b>Total Unreported Eligible Gross Earnings</b>	<b><u>\$25,198</u></b>
<b>Member Contributions</b>	<b><u>\$2,908</u></b>
<b>Employer Contributions</b>	<b><u>\$2,908</u></b>
<b>Estimated Interest Due</b>	<b><u>\$206</u></b>
<b>Total Estimated Due ASRS</b>	<b><u>\$6,022</u></b>

**Recommendation(s):**

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.
3. The employer should self-audit the eligibility of all employees for the fiscal year beginning July 1, 2014, and remit contributions for all eligible employees’ earnings.

**Employer Response:**

We received an invoice from the ASRS Chief Internal Auditor for \$3,114.34. We will write a check for this tomorrow and mail that payment for the employer contributions of \$2,907.84 and the accrued interest of \$206.50.

The ASRS Contribution Accounting Supervisor is going to generate invoices for the ASRS employee contributions that were not withheld by the district in error for the two employees that were identified as part of this audit. Per instructions, we will explain that the failure to withhold was an error on the district’s part and that any questions regarding the invoice for these ASRS employee contributions should be directed to Contribution Accounting Supervisor.

ARIZONA STATE RETIREMENT SYSTEM  
CATALINA FOOTHILLS SCHOOL DISTRICT  
RECOMMENDATIONS

The Catalina Human Resource is going to send an internal report to Payroll when there are changes to an employee's FTE (Full Time Equivalency) so that the report clearly states the employee's total FTE, not just the change in FTE. This additional information will help ensure that Payroll recognizes the employee's total FTE as their FTE can be split between multiple job functions.

The revised form that Catalina developed should address the issue of identifying non-contributors to ASRS.

The Catalina Senior Accountant has been conducting a self-audit of 2014/2015 to ensure that all employees who should be contributing to ASRS have been identified and are contributing. We have one issue with an employee who took "early retirement" and should be contributing to ASRS. The Catalina Senior Accountant is working with the ASRS Contribution Accounting Supervisor Marcia Kumamoto to address the payment of back ASRS employee contributions. The district has been paying the ACR for this employee so the district payment also needs to be adjusted to the contribution rate.

**FINDING 3:**

**Catalina Foothills School District did not timely inform the ASRS that one retired member was no longer covered through Catalina Foothills School District's dental insurance resulting in ASRS premium benefit overpayments.**

A.R.S. § 38-783 provides for the ASRS to pay part of the coverage premium of any health and accident insurance for each retired member if the member elects to participate in the coverage provided by ASRS or elects to participate in a health and accident insurance program provided by an employer.

The May, 2014, ASRS health insurance premium benefit report was selected for review. As of May, 2014, there were twenty-nine retirees receiving an ASRS premium benefit. One of these retirees ceased dental coverage from Catalina Foothills School District December, 2010. Catalina Foothills School District recently submitted information to ASRS necessary to process the overpayment.

The premium benefit overpayment due the ASRS, as determined by this audit is as follows:

**Total premium benefit overpayment due \$3,109**

**Recommendation(s):**

1. Catalina Foothills School District should develop a monthly process to reconcile all ASRS premium benefit payments to ensure coverage has not ceased. Catalina Foothills School District should timely notify the ASRS whenever a retiree's coverage has ceased.

**Employer Response:**

When I talked to the ASRS Contribution Accounting Supervisor, she said that the Health Insurance Department of ASRS made the \$3,109 adjustment to the district's December payment for the premium benefit overpayment for a retiree's dental coverage.

ARIZONA STATE RETIREMENT SYSTEM  
CATALINA FOOTHILLS SCHOOL DISTRICT  
RECOMMENDATIONS

Human Resources will compare their subsidy report to each of our medical and dental invoices to ensure they identify any discrepancies to avoid this type of error going forward.

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

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**GREENLEE COUNTY**

**MAY, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
GREENLEE COUNTY  
MAY, 2014

The audit of Greenlee County was completed May 16, 2014, for the period July 1, 2010 through June 30, 2013.

The audit objectives were to determine whether Greenlee County was 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.
- Statutes governing retirees' return to work.
- Statutes governing termination incentive programs.

**SUMMARY OF FINDINGS:**

Based on the results of the work performed to meet the above audit objectives, the following statement summarizes the findings presented to Greenlee County:

**Greenlee County did not:**

1. **Remit ASRS contributions for twenty-nine employees who were engaged to work at least twenty hours per week for at least twenty weeks in one or more fiscal years.**
2. **Remit ASRS contributions on all eligible compensation for two employees.**
3. **Request a refund for remitted contributions on two ineligible members.**

**BACKGROUND**

Greenlee County joined the ASRS January 1, 1954 by executing an Application and Social Security 218 agreement. Greenlee County currently has approximately 144 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, 2010 through June 30, 2013. 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.

ARIZONA STATE RETIREMENT SYSTEM  
GREENLEE COUNTY  
MAY, 2014

- 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 benefits.
- 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.
- Determine compliance with A.R.S. § 38-749(D)(1) to determine 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:**

Greenlee County 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 with Greenlee County personnel.

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

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**GREENLEE COUNTY**

**FINDINGS AND RECOMMENDATIONS**

**MAY, 2014**

ARIZONA STATE RETIREMENT SYSTEM  
GREENLEE COUNTY  
RECOMMENDATIONS

**FINDING 1:**

**Greenlee County did not:**

- **Remit ASRS contributions for twenty-nine employees who were engaged to work at least twenty hours per week for at least twenty weeks in one or more fiscal years.**
- **Remit ASRS contributions on all eligible compensation for two employees.**

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.”

Twenty-nine employees of Greenlee County were engaged to work at least twenty hours per week for twenty or more weeks during the fiscal year without paying contributions when they first became eligible.

Two employee’s contributions were started and stopped during the fiscal year because they either changed to another position or reduced work hours. A non-retired member who achieves ASRS eligibility retains that eligibility for the remainder of the fiscal year at that same employer in all circumstances, even if he or she permanently reduces weekly hours or has a termination and then returns to work for that employer at less than 20/20.

The ASRS Financial Services Department will generate invoices for the employee’s portion of the contribution due after payment is made by Greenlee County. Greenlee County 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:

<b>Total Unreported Eligible Gross Earnings</b>	<b><u>\$412,481</u></b>
<b>Member Contributions</b>	<b>41,262</b>
<b>Employer Contributions</b>	<b>41,262</b>
<b>Estimated Interest Due</b>	<b>13,622</b>
<b>Total Estimated Due ASRS</b>	<b><u>\$96,146</u></b>

**Recommendation(s):**

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. A member who achieves ASRS eligibility retains that eligibility for the remainder of the fiscal year at that same employer in all circumstances, even if he or she permanently reduces weekly hours. An assessment of the member’s ASRS eligibility should then be made at the beginning of the next fiscal year.

ARIZONA STATE RETIREMENT SYSTEM  
GREENLEE COUNTY  
RECOMMENDATIONS

3. 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.
4. The employer should self-audit the eligibility of all employees for the fiscal year beginning July 1, 2013, and remit contributions for all eligible employees' earnings.

**Employer First Response:**

Greenlee County does not agree in total with Finding #1 and is appealing this Finding.

**ASRS Management Response:**

Ms. Deborah K. Gale, Greenlee County Administrator, in a July 2, 2014 letter to the ASRS in response to this audit finding "admits that errors were made in some instances. Circumventing State rules regarding eligibility and payment of member contributions to ASRS was never the intent of Greenlee County nor do we believe that we violated the rules in an overwhelming majority of the cases cited in the report."

Ms. Gale further asserts that 24 of the 31 employees "were in positions that were designed to be and designated to be part time. ... In other words, they were never engaged to be full time employees, nor was it anticipated that they would exceed the 20/20 threshold."

Ms. Gale offers the following rebuttal to Finding #1:

- The County did enroll and remit ASRS contributions once the employees hit the 20/20 threshold of 20 weeks of employment of 20 or more hours per week, as the employees were enrolled in Public Safety Personnel Retirement System if they were promoted to permanent full time positions before they met the ASRS 20/20 threshold. At this time, 15 of the 31 employees noted in the audit report are no longer employed by Greenlee County. However, the County has identified 5 of the 15 for whom ASRS contributions not withheld (CNW) do exist and for whom delinquent ASRS contributions will be made.
- Seven of the 31 positions are Deputy Cadet positions which, upon certification, become eligible for membership in PSPRS. Only 3 Deputy Cadets are still employed.

Of the 16 still employed workers but excluding the 3 Deputy Cadet currently employed workers, Greenlee County has 13 employees who are not eligible for PSPRS, nor CORP, and for whom delinquent ASRS contributions are owed because of satisfying the 20/20 criteria for ASRS membership.

It is recognized that Greenlee County did not arbitrarily apply the membership criteria but believed it was complying with its understanding of when a worker would become eligible for ASRS membership. Though certain positions, upon hire, were not "engaged to work 20/20," they, in fact, did and ASRS contributions should have been remitted.

Of the 31 employees in question as a result of Audit Finding #1, there are 18 employees (5 terminated, 13 employed) for whom delinquent ASRS contributions should be paid.

**Employer Follow up Response:**

Greenlee County agreed with the ASRS determination as noted above.

ARIZONA STATE RETIREMENT SYSTEM  
GREENLEE COUNTY  
RECOMMENDATIONS

**FINDING 2:**

**Greenlee County did not request a refund for remitted contributions on two ineligible members.**

A.R.S. § 38-738 paragraph (A) provides for a refund of ineligible earnings. “If more than the correct amount of employer or member contributions is paid into ASRS by an employer through a mistake of fact, ASRS shall return those contributions to the employer if the employer requests return of the contributions within one year after the date of overpayments.”

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

<b>Total Gross Earnings</b>	<b><u>\$54,885</u></b>
<b>Member Contributions</b>	<b>4,601</b>
<b>Employer Contributions</b>	<b>4,601</b>
<b>Total Credit Due</b>	<b><u>\$9,202</u></b>

**Recommendation(s):**

1. Greenlee County should contact its contributions accounting representative at ASRS to make arrangements to take this available credit.
2. ASRS contributions should not be withheld from part-time employees’ earnings when an employee is not engaged to work at least twenty weeks in each fiscal year and at least twenty hours per week (20/20 membership criteria).
3. Greenlee County 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.
4. Greenlee County should self-audit the eligibility of all employees for fiscal year beginning July1, 2013. The employer should determine whether any employees participating in ASRS on June 30, 2013, will remain eligible in the upcoming fiscal year

**Employer Response:**

Greenlee County agreed with this Finding and has ceased remitting contributions for these two ineligible employees.

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

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**MARICOPA COUNTY**

**MARCH, 2015**

ARIZONA STATE RETIREMENT SYSTEM  
MARICOPA COUNTY  
MARCH, 2015

The audit of Maricopa County was completed on January 30, 2015, for the period July 1, 2011 through June 30, 2012.

The audit objectives are to determine whether Maricopa County 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.
- Return to work Retirees.

### **SUMMARY OF FINDINGS:**

Based on the results of the work performed to meet the above audit objectives, the following statement summarizes the findings presented to Maricopa County:

#### **Maricopa County:**

- **Did not remit contributions for three eligible employees in the fiscal year 2012.**
- **Did not request contributions refund for eight ineligible employees in the fiscal year 2012.**
- **Did not remit the alternative contribution due for two of its return to work retirees in the fiscal year 2013.**

### **BACKGROUND**

Maricopa County joined the ASRS June 29, 1951 by executing an Application and Social Security 218 agreement. Maricopa County has approximately 8,583 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, 2012. 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.

ARIZONA STATE RETIREMENT SYSTEM  
MARICOPA COUNTY  
MARCH, 2015

- 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.
- Review the salaries of retiring employees to determine whether there is salary spiking during the years prior to the employee retirement.
- Other detailed testing as required to meet the audit objectives.

**AUDITOR COMMENTS:**

Maricopa County 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**

**MARICOPA COUNTY**

**FINDINGS AND RECOMMENDATIONS**

**MARCH, 2015**

ARIZONA STATE RETIREMENT SYSTEM  
MARICOPA COUNTY  
RECOMMENDATIONS

**FINDING 1:**

**Maricopa County did not remit contributions for three eligible employees in the fiscal year 2012.**

A.R.S. Title 38, Chapter 5, Article 1, 2, and 2.1, Subsections 38-711 (23), 38-721, and 38-736 address the ASRS 20/20 membership eligibility criteria, compensation paid to employees, and the employer's reporting of required contributions due to the ASRS.

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

<b>Total Gross Earnings</b>	<b><u>\$10,628</u></b>
<b>Member Contributions</b>	<b>1,141</b>
<b>Employer Contributions</b>	<b>1,141</b>
<b>Interest Due</b>	<b>505</b>
<b>Total Credit Due</b>	<b><u>\$2,787</u></b>

**Recommendation.(s):**

1. Maricopa County should develop and implement an internal process to identify employees whose work hours and weeks meet the ASRS 20/20 membership eligibility criteria and remit contributions to the ASRS.
2. Maricopa County should ensure the completion of employee and beneficiary enrollment at the ASRS.
3. Maricopa County should self audit the eligibility of all employees in fiscal years 2013 and 2014 and remit contributions to the ASRS.

**Employer Response:**

Maricopa County agreed with the ASRS and already completed all three recommendations.

**FINDING 2:**

**Maricopa County did not request contributions refund for eight ineligible employees in the fiscal year 2012.**

A.R.S. § 38-738 paragraph (A) provides for a refund of ineligible earnings. "If more than the correct amount of employer or member contributions is paid into ASRS by an employer through a mistake of fact, ASRS shall return those contributions to the employer if the employer requests return of the contributions within one year after the date of overpayments."

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

<b>Total Gross Earnings</b>	<b><u>\$116,242</u></b>
<b>Member Contributions</b>	<b>12,456</b>
<b>Employer Contributions</b>	<b>12,456</b>
<b>Total Credit Due</b>	<b><u>\$24,912</u></b>

ARIZONA STATE RETIREMENT SYSTEM  
MARICOPA COUNTY  
RECOMMENDATIONS

**Recommendation(s):**

1. Maricopa County should contact its contributions accounting representative at ASRS to make arrangements to take this available credit.
2. ASRS contributions should not be withheld from part-time employees' earnings when an employee is not engaged to work at least twenty weeks in each fiscal year and at least twenty hours per week (20/20 membership criteria). For those employees who work irregularly from one week to the next, contributions should not be withheld until the beginning of the 20<sup>th</sup> week of working 20 or more hours.
3. Maricopa County should self-audit the eligibility of all employees for the fiscal years 2013 and 2014.

**Employer Response:**

Maricopa County agreed with the ASRS and already completed all three recommendations.

**FINDING 3:**

**Maricopa County did not remit alternative contributions for two of its return to work retirees in the fiscal year 2013.**

A.R.S. § 38-766.02 provides the guidelines for payment of the alternative 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."

Maricopa County had two return to work retirees where no alternative contribution was remitted on eligible wages for the fiscal year 2013.

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

<b>Total Gross Earnings</b>	<b><u>\$3,250</u></b>
<b>Total estimated ACR due</b>	<b><u>\$280</u></b>

**Recommendation(s):**

1. Maricopa County should contact its contributions accounting representative at ASRS to make arrangements for payment, including interest, of the alternative contribution due.
2. Maricopa County should self-audit the return to work retirees for the fiscal year 2014, and remit contributions due to the ASRS.

**Employer Response:**

Maricopa County agreed with the ASRS, already completed recommendation # 1, and is in the process of completing recommendation #2.

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

**ARIZONA STATE RETIREMENT SYSTEM  
EMPLOYER AUDITS**

**UNION ELEMENTARY SCHOOL DISTRICT**

**FEBRUARY, 2015**

ARIZONA STATE RETIREMENT SYSTEM  
UNION ELEMENTARY SCHOOL DISTRICT  
FEBRUARY, 2015

The audit of Union Elementary School District was completed February 5, 2015, for the period July 1, 2011 through June 30, 2014.

The audit objectives are to determine whether Union Elementary 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 Union Elementary School District:

#### **Union Elementary School District:**

- **Did not remit the alternative contribution due for two of its return to work retirees.**
- **Did not remit ASRS contributions for two 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's lump sum payment for accumulated leave upon termination of employment.**

### **BACKGROUND**

Union Elementary School District joined the ASRS July 1, 1970, by executing an Application and Social Security 218 Agreement. Union Elementary School District currently has approximately 180 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.

ARIZONA STATE RETIREMENT SYSTEM  
UNION ELEMENTARY SCHOOL DISTRICT  
FEBRUARY, 2015

- 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.
- Review the salaries of retiring employees to determine whether there is salary spiking during the years prior to the employee retirement.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

**AUDITOR COMMENTS:**

Union Elementary 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**

**UNION ELEMENTARY SCHOOL DISTRICT**

**FINDINGS AND RECOMMENDATIONS**

**FEBRUARY, 2015**

ARIZONA STATE RETIREMENT SYSTEM  
UNION ELEMENTARY SCHOOL DISTRICT  
RECOMMENDATIONS

**FINDING 1:**

**Union Elementary School District did not remit the alternative contribution due for two of its return to work retirees.**

A.R.S. § 38-766.02 provides the guidelines for payment of the alternative 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.”

Union Elementary School District had two return to work retiree’s where no alternative contribution was remitted on eligible wages.

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

<b>Total Gross Earnings</b>	<b>\$7,952</b>
<b>Total estimated ACR due</b>	<b>\$711</b>

Union Elementary School District has reviewed and made ACR corrections for fiscal year 2014/2015. Additionally, they have implemented new procedures for new hires. The new procedures require a check for member eligibility on the ASRS employer portal before processing.

**Recommendation:**

Union Elementary School District should contact its contributions accounting representative at ASRS to make arrangements for payment, including interest, of the alternative contribution due.

**Employer Response:**

Union Elementary will be submitting the final amounts have been calculated after the exit interview. Each individual will need to be set up in accordance with the direction of the ASRS supervisor and the ACR paid on individual pay periods.

**FINDING 2:**

**Union Elementary School District did not remit ASRS contributions for two 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  
UNION ELEMENTARY SCHOOL DISTRICT  
RECOMMENDATIONS

Two employees of Union Elementary 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 Division will generate invoices for the employees' portion of the contribution due after payment is made by Union Elementary School District. Union Elementary 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:

<b>Total Unreported Eligible Gross Earnings</b>	<b><u>\$8,601</u></b>
<b>Member Contributions</b>	<b>\$992</b>
<b>Employer Contributions</b>	<b>\$992</b>
<b>Estimated Interest Due</b>	<b>\$96</b>
<b>Total Estimated Due ASRS</b>	<b><u>\$2,080</u></b>

**Recommendation(s):**

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.
3. The employer should self-audit the eligibility of all employees for the fiscal year beginning July 1, 2014, and remit contributions for all eligible employees' earnings.

**Employer Response:**

Union Elementary will submit the amount after the final calculations have been made after the exit interview per direction of ASRS.

Union Elementary has revised the payroll procedures to include a new spreadsheet to track hours worked for all substitutes. As part of the revised procedures, notification will be sent to the substitute when the 20/20 eligibility is about to be met.

**FINDING 3:**

**Union Elementary School District applied and remitted contributions on two employees' lump sum payment 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 employees' termination pay.

ARIZONA STATE RETIREMENT SYSTEM  
UNION ELEMENTARY 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:

<b>Total Gross Earnings</b>	<b><u>\$8,303</u></b>
<b>Member Contributions</b>	<b><u>\$896</u></b>
<b>Employer Contributions</b>	<b><u>\$896</u></b>
<b>Total Credit</b>	<b><u>\$1,792</u></b>

**Recommendation(s):**

1. Union Elementary School District should contact its contributions accounting representative at ASRS to make arrangements to take this available credit.
2. Union Elementary 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.
3. Union Elementary School District should self-audit termination pay for all employees for fiscal year beginning July 1, 2014.

**Employer Response:**

The Union Elementary School District will process the credit through payroll per direction of the ASRS supervisor. The district will then submit an adjustment template.

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

**ARIZONA STATE RETIREMENT SYSTEM  
REVIEW OF RECENTLY CONDUCTED AUDITS  
2014 AGENCY & EMPLOYER COMPLIANCE FOLLOW UP  
JANUARY, 2015**

ARIZONA STATE RETIREMENT SYSTEM  
AGENCY AND EMPLOYER COMPLIANCE FOLLOW UP  
JANUARY 2015

The Internal Audit Division (IAD) has completed follow-up reviews on all responses to audits completed in Fiscal Year (FY) 2014 or prior years.

The audit work performed during this engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

The audits included within the scope of this report are:

1. ASRS Records Management – Reported to the OAC July 2013;
2. ASRS Member Advisory Center and E-mail (askmac) – Reported to the OAC September 2013;
3. ASRS IMD Investment trade system - Reported to the OAC May 2014;
4. Maricopa Integrated Health System – Reported to the OAC January 2013
5. Pima County - Reported to the OAC September 2013;
6. City of Tempe – Reported to the OAC December 2013;
7. Gilbert USD – Reported to the OAC December 2013;
8. Gila County - Reported to the OAC February 2014;
9. Prescott Valley Charter School - Reported to the OAC April 2014;

The objective for this follow-up report is to ensure that all findings made during the audits and agreed to by management have been addressed and corrected by the promised due dates.

The audit findings and the follow-up findings for each report include:

**(1) ASRS RECORDS MANAGEMENT FOLLOW-UP**

1. **The ASRS Data Classification Policy should be amended regarding who is to be notified when a security breach occurs.**
2. **Several ASRS Divisions have the ability to change addresses/names in the database. The Divisions do not always consistently follow the prescribed procedures for changing demographics.**
3. **Records retention schedules identified in the Arizona State Library Archives (ASLA) for paper records are not being consistently followed.**

1. **Resolved** – In the revised Data Classification Policy, the Privacy Officer is now notified immediately when a security breach occurs. Once verified, the Director and Internal Audit are also notified.
2. **Resolved** – The Member Advisory Center (MAC) will reinforce existing procedures to require four pieces of identifying information before taking any action on an account. Members will be asked to complete their enrollment to get enough information on account before taking the next step.
3. **Resolved** – The ASRS has made significant headway in removing documents the State deems unnecessary. The Agency now has full-time Privacy Officer.

**(2) ASRS MEMBER ADVISORY CENTER AND E-MAIL (ASKMAC) FOLLOW UP**

1. The scheduling tool doesn't give actual seated counts daily
  - a) Include all known staffing events in planned shrink and revise schedules;
  - b) Track unplanned shrink;
  - c) Schedule needs to be monitored other than monthly;
  - d) Call answering staff should be dedicated to that task only per Erlang C;
  - e) Non Mac staff scheduled to assist should be verified daily with emails;
  - f) Inter-day triggers identified that initiate quick response to achieve performance measures;
  - g) Judgment by MAC supervision on call forecasts and scheduling to meet performance measures.
2.
  - a) Refinement of performance measures could benefit the MAC; Top 10 Benefit advisor AUX time change;
  - b) Alter score card to clarify schedule adherence measure (total monthly not daily);
  - c) Create on-hold report and utilize;
  - d) Staff awareness of team effort to answer calls within performance measures.
3. QA video portion of call recording should be retained.
4. MAC operational reports contained minor data errors
  - a) Missing headings and labels;
  - b) The Daily MAC report needs additional information to improve on staff reporting;
  - c) Some historical call data is stored with outdated and inaccurate references, formula errors, and date errors.
5. Added training in the use of the AVAYA CMS supervisor reporting module is needed to improve the data gathering and management capabilities for MAC management. Also, reminder training is needed to ensure all staff log out of applications to the network level so that system updates can be accomplished when needed.
6. Though existing Standard Operating Procedures (SOPs) for MAC and ASKMAC are generally thorough and complete, some areas are still being developed, such as QA, and there were important areas of reporting that have inadequate detail on how the process is completed. Also, there are a number of outdated and unused documents and spreadsheet files related to MAC and its past management on the P drive, and to a lesser extent on IQ.

ARIZONA STATE RETIREMENT SYSTEM  
AGENCY AND EMPLOYER COMPLIANCE FOLLOW UP  
JANUARY 2015

1. **Partially Resolved**

- a) The management tool has two missing chart lines on staffing levels. Plan is to address this with CISCO system installation.
  - b) No factor for unplanned shrink in staffing calculations. Confusion over 11% shrink factor for breaks and lunch as “unplanned shrink.”
  - c) Management feels they update schedule adequately.
  - d) Dedicated staff are assigned other duties based on call volume.
  - e) Still no emails to confirm call answering assistance sent out beforehand.
  - f) Management is satisfied with the current method.
  - g) Management is satisfied with the current method.
2. a) and b) Management satisfied with their performance measures for the top 10 MAC personnel.  
c) Hold reports are run and used as needed; d) Management indicates more emphasis towards team goal of getting calls answered within service level.

3. **Resolved**

4. a) Lost report not recreated - no SOP on it. It is planned to be recreated under the new CISCO system.  
b) Currently not done - will be addressed in new CISCO system; c) SOPs have been revised.
5. AVAYA training manual was obtained but the phone system is being changed to CISCO in the near future. Once the new system is implemented, SOPs for its use and function will be created.
6. a) SOPs improved but lost report not recreated and Dashboard management tool has two missing chart lines on staffing levels that are not expected to be included until after the new CISCO system implementation.  
b and c) Updating and purging files will be a constant, ongoing endeavor.

**(3) ASRS IMD INVESTMENT TRADE SYSTEM FOLLOW UP**

- 1. **Bloomberg’s AIM Order Management System has reduced errors, expedited trade processing and compliance review, and portfolio holdings are electronically linked to market data as well as the custodial bank. However, there are potential segregation of duties (SOD) conflicts with regard to AIM system administration and equity trades being approved by equity staff rather than fixed income staff.**
- 2. **Expedite expansion of AIM user access to appropriate IMD staff in order to ensure availability of approvals needed.**
- 3. **Establish strict and verifiable oversight over AIM administrative activities and compliance rules given the existing SOD limitations implement high level**

**authority of access granting and changes to the system with periodic monitoring to confirm compliance.**

1. **Resolved** – SOPs for various IMD trading areas cover this issue.
2. **Resolved** – Trading authority limited to four individuals. Approval authority has been expanded to include six staff who cannot trade along with two each from equity and fixed income trading areas who can only approve trades for the opposite areas for a total of ten.
3. **Resolved** – The key administrator and his backup only have approval authority and cannot initiate a trade as in the past.

**(4) MARICOPA INTEGRATED HEALTH SYSTEM**

1. **MIHS continues to enroll ineligible employees into the ASRS and should perform a self audit over the next six years.**
  1. **Results of MIHS self audit for 2008 – 2013: MIHS identified 907 employees who did not meet the 20/20 requirement of eligibility in the ASRS. The ASRS will issue a credit of \$2,026,123 to MIHS. MIHS now has in place internal queries that capture ineligibility as it occurs.**

**(5) PIMA COUNTY FOLLOW UP**

1. **Did not timely inform the ASRS that 16 retired members were no longer covered through Pima County's insurance coverage under COBRA resulting in ASRS medical and dental insurance premium benefit overpayments.**
  1. **Resolved** – New forms for authorizations, acceptance, training and card receipt have all been implemented. Monitoring of cards will be handled by the Procurement Department.

**(6) CITY OF TEMPE FOLLOW UP**

1. **The City of Tempe did not request a refund for remitted contributions on 162 ineligible members.**
2. **The City of Tempe did not remit ASRS contributions on all eligible compensation for six employees.**

**Resolved** – City of Tempe has taken steps to better train their supervisors/managers on how to properly classify individuals as being part-time in regards to both eligibility and ineligibility.

**(7) GILBERT USD FOLLOW UP**

**1. The District did not:**

- **Remit ASRS contributions for 68 employees who were engaged to work at least twenty hours per week for at least twenty weeks in one or more fiscal years.**
- **Remit ASRS contributions on all eligible compensation for 115 employees.**
- **Remit ASRS contributions on dual employment income for one employee.**
- **Report one early retiree who returned to 20/20 employment before reaching normal retirement.**

**2. The District remitted contributions for 692 ineligible individuals who were contributing in one or more fiscal years even though they had not met the 20/20 eligibility criteria.**

**3. The District 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 30 days of returning to work, although the District did take steps to correct this.**

1. **Resolved** – The employer has corrected this problem for FY 2014 and forward, although there were still some problems in FY 2013, when they were putting new processes in place. The District now uses online RTW forms to avoid problems with retirees reaching 20/20 before meeting the requirements of § 38-766.01. They have set up a regular, automatic report so that payroll receives an alert when someone is nearing 20/20 or they have reached it or passed it.

2. **Resolved** – The District has made great improvements in this area, including in FY 2014 over FY 2013. The School reversed the ineligible contributions that were identified in the original audit. The employer is now reviewing its employees for eligibility. Eighteen employees were found to be ineligible in FY 2013 and 2014.

- One employee had ineligible contributions in both years.
- Six employees had ineligible contributions in FY 2014.
- Eleven employees had ineligible contributions in FY 2013.

3. **Resolved** – The District has corrected this problem. At the end of the original audit, 28 of the 48 retirees selected for testing had RTW Forms on file, for a 58% compliance rate. For the follow up, 91 retirees were selected for testing, and 66 were found to need RTW Forms, and 58 already had them. In primary testing only eight retirees were identified who needed RTW Forms but did not have them on file. The employer was given these names and sent in copies of the forms for all the remaining retirees. Their ending compliance rate was 100 %

**(8) GILA COUNTY FOLLOW UP**

**1. Gila County did not remit ASRS contributions for eighteen employees who worked or were engaged to work at least twenty hours per week for at least twenty weeks in one or more fiscal years.**

ARIZONA STATE RETIREMENT SYSTEM  
AGENCY AND EMPLOYER COMPLIANCE FOLLOW UP  
JANUARY 2015

1. **Resolved** – The County HR Director requires all temporary employees to cease employment once their assignment is completed. This change was communicated to Gila County management. The County was reminded that employer’s employment classification of employee does not determine ASRS membership status.

**(9) PRESCOTT VALLEY CHARTER SCHOOL FOLLOW UP**

1. **Prescott Valley Charter School did not remit ASRS contributions on all eligible compensation for two employees.**
2. **The Prescott Valley Charter School remitted contributions for one ineligible individual who was contributing in one fiscal year on final income that was not eligible.**
3. **The Prescott Valley Charter School did not refund to some employees the excess contributions required under A.R.S. § 38-736 beginning July 1, 2011, that were retroactively reversed within the year.**
4. **The Prescott Valley Charter School did not pay the alternative contribution rate (ACR) for its retirees who have returned to work.**
  1. **Resolved** – The charter school remitted the amounts owed for these employees. The employer is now leasing all it’s employees so there are no current members who may owe unreported contributions.
  2. **Resolved** – The charter school reversed the ineligible contributions and is now leasing all its employees and no longer making contributions.
  3. **Resolved** – These amounts have been refunded to employees. The employees have all refunded their accounts so no recordkeeping is required.
  4. **Resolved** – The charter school has corrected this problem. The school has retroactively remitted the ACR owed that was identified in the audit and has remitted ACR consistently since the audit.

**STATUS OF INTERNAL AUDITS  
FOR THE 6 MONTHS ENDED (Dec 2014)**

2014/15 <u>AUDITS</u>	ACTUAL		PERCENT OF HOURS <u>UTILIZED</u>	<u>ESTIMATED</u>		EXPANATION OF ACTUAL HOURS THAT EXCEED <u>BUDGET BY MORE THAN 10%</u>
	<u>HOURS BUDGETED</u>	<u>HOURS WORK YTD</u>		<u>HOURS REMAINING</u>	<u>TOTAL HOURS WHEN COMPLETE</u>	
Service purchase invoices	150	60	40%	90	150	
Investment trade tickets	550	105	19%	445	550	
Fraud hotline/internal investigations	200	64	32%	136	200	
Employer audits	4,250	1,898	45%	2,352	4,250	
Continuous audit monitoring	250	55	22%	195	250	
Pension/survivor final audit	200	207	104%	(7)	200	
Refunds processing	150	78	52%	72	150	
audit follow-up	150	0	0%	150	150	
Census data Gasb 68	300	308	103%	(8)	300	
Spreadsheet review (from 2013-14)	228	187	100%	0	187	
Information security	300	0	0%	300	300	
Quadros	300	0	0%	300	300	
Software licensing	200	0	0%	200	200	
<b>TOTALS</b>	<b>7,228</b>	<b>2,962</b>		<b>4,225</b>	<b>7,187</b>	
<b>OTHER THAN AUDITS</b>						
Member statement testing	100	40	40%	60	100	
Director requests	150	150	100%	0	150	
Requested audits/other*	150	0	0%	150	150	
Audit plan	100	0	0%	100	100	
<b>TOTALS</b>	<b>500</b>	<b>190</b>		<b>310</b>	<b>500</b>	
<b>GRAND TOTAL</b>	<b>7,728</b>	<b>3,152</b>		<b>4,535</b>	<b>7,687</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.

- Return-to-Work Follow Up Discussion
- GASB 68 Report
- Dental Program RFP
- Quarterly Audit Report (1Q2015)
- Internal/Employer Audits
- Audit Plan FY 16/17
- Compensation Strategies FY2015
- Staffing Update

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

- COOP Functionality Test and Tabletop Exercise Update
- Budget (if needed)
- Internal/Employer Audits
- Quarterly Audit Report (2Q2015)

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

- Internal/Employer Audits
- Quarterly Audit Report (3Q2015)
- Web Steering Committee Update
- CEM Benchmarking Methodology

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

- Internal/Employer Audits

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 accommodating 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)
- Use of RRAA funds
- Linda Somo & ACR (sub. Teachers) per Paul
- Dr. Jacob wanted additional information on RTW
- 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
- Mr. Smarik suggested the ASRS IAD audit the state of AZ as a whole rather than individual agencies
- Mr. Jacob suggested an alert system that would notify staff of any major problems surrounding the building , network, etc.
- Mr. Jacob suggested an ASRS app for smartphones for people to access their ASRS accounts

PROPOSED