



ARIZONA STATE RETIREMENT SYSTEM

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

Paul Matson
Director

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

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

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

1. Call to Order; Roll Call; Opening Remarks

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

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, addressed the Committee regarding its current vacancies and recent discussions surrounding whether there is a quorum to conduct business. Mr. Guarino stated that it was his understanding that Mr. Kevin McCarthy, Board Chair, will be providing clarification and officially reducing the size of the Committees due to the number of vacancies on the ASRS Board of Trustees. In the meantime, Mr. Guarino advised Mr. Tyne, as the Committee Chair, that he can accept the minutes on behalf of the Committee, if Dr. Richard Jacob concurred since this was the only action item on the agenda.

2. Approval of the December 9, 2014 Minutes of the OAC Public Meeting and Executive Session

Due to the lack of a quorum, Mr. Jeff Tyne, Chair, accepted the December 9, 2014 minutes of the OAC Public Meeting and Executive Session. Dr. Richard Jacob concurred.

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. Guarino advised the Committee that the ASRS has finalized data security and privacy plans, as discussed in detail at the December 9, 2014 OAC meeting and has incorporated them into a larger 5-year plan of initiatives which Ms. Sara Orozco, Manager, Strategic Planning and Analysis, will present.

Ms. Orozco provided an overview of the current status of the data security, privacy program development and technology development initiatives. Some topics of discussion included: the desire and need to move toward phasing out the use of Social Security Numbers unless there is a business need; moving member benefit disbursement in-house; the hiring of a full-time Privacy Officer; three years of data security and privacy program activities that have been identified; the five priority items for the technology development; and the Oracle Modernization Project.

Dr. Jacob requested staff to provide a list of major functions the ASRS would like to have that the current technology doesn't provide and are not on the current technology development plan to discuss at a future meeting.

4. Presentation, Discussion and Appropriate Action Regarding the Purchase of ASRS Network and Privacy Insurance

Mr. Russ Levine, Manager, Budget and Procurement, was present to provide background regarding the search for network security and privacy liability insurance that began in 2014 in conjunction with the Arizona Department of Administration's Risk Management Division (ADOA-RMD). The State's self-insurance covers general liability, property insurance and auto insurance but not the cost of responding to a data breach. Upon completion of the due diligence process, the ASRS secured network security and privacy liability insurance from the Beazley Group. 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.

5. Presentation, Discussion and Appropriate Action Regarding the Web Steering Committee

Mr. Dave King, Assistant Director, Member Services, provided an update regarding the Web Steering Committee and stated that he believes the ASRS has made great progress with the implementation of additional transactions that can be handled online. Mr. King reviewed the handouts which identified the member transactions that are now being offered online and those that have not yet been converted. Mr. King also informed the Committee that the Governor's Office is currently collecting data from all state agencies regarding customer services that are now being offered online.

Mr. King wanted to highlight a couple of items for the Trustees: (1) the chart provided shows that the website traffic has decreased; however, it's unknown how accurately this data is being reflected due to the new tracking method Google Analytics converted to in August, 2014. Mr. King believes it is increasing not decreasing, and (2) the ASRS secure website will be mobile friendly by June 2015.

6. Presentation, Discussion and Appropriate Action Regarding UnitedHealthcare's Senior Supplement Plan Prescription Drug Payment Coupon Letter

Mr. Patrick Klein, Assistant Director, External Affairs and Mr. Edward Rapoport, Benefits Administrator, were present to provide the topic overview and update. Mr. Klein shared that UnitedHealthcare (UHC) mailed out prescription drug invoices in early December, 2014 to all enrollees in the ASRS-sponsored Senior Supplement Plan erroneously. This was brought to the ASRS' attention on December 15, 2014 and contact was then made with UHC. Although

UHC was quick to respond to acknowledge the error in a letter dated December 17, 2014, to the ASRS-sponsored Senior Supplement Plan enrollees, some invoices had already been remitted by the enrollees. As of January 13, 2015, refunds to enrollees who paid the invoice unnecessarily were processed to be mailed by January 20, 2015.

7. Review of Recently Conducted Audits

Mr. Bernard Glick, Chief Internal Auditor, reviewed the following audits conducted by the Internal Audit Division (IAD).

- **Catalina Foothills School District**

The IAD had three findings from the Catalina Foothills School District audit. The employer agreed with the findings and IAD's recommendations.

- **Greenlee County**

The IAD had two findings from the Greenlee County audit. The employer appealed the first finding with regard to the number of employees who were engaged to work 20/20 and contributions were not withheld. The appeal found that the number of employees was 18, not 29. All parties agreed with the findings of the appeal and the employer agreed to the IAD's recommendations for both findings.

- **Maricopa County**

The IAD had three findings from the Maricopa County audit. The employer agreed with the findings and the IAD's recommendations.

- **Union Elementary School District**

The IAD had three findings from the Union Elementary School District audit. The employer agreed with the findings and the IAD's recommendations.

- **2014 Agency & Employer Compliance Follow-Up**

The IAD presented the Committee with an agency and employer compliance follow-up to nine previously conducted audits: the ASRS Records Management; the ASRS Member Advisory Center and Email (ASKMAC); the ASRS IMD Investment Trade System; Maricopa Integrated Health System; Pima County; City of Tempe; Gilbert USD; Gila County; and Prescott Valley Charter School.

With regard to the three internal audits, Mr. Glick stated that all of the issues presented in the original audits for the ASRS Records Management and IMD Investment Trade System have been resolved. Mr. Glick asked to discuss the ASRS Member Advisory Center at the end of the follow-up discussion.

With regard to the employer audits, Mr. Glick stated that Maricopa Integrated Health System continues to enroll ineligible employees; however, now has in place an internal query to capture ineligibility as it occurs and they will continue to self-audit. Mr. Glick stated that all of the issues presented in the original audits for Pima County, City of Tempe, Gilbert USD, Gila County and Prescott Valley Charter School have been resolved.

With regard to the internal audit of the ASRS Member Advisory Center, Mr. Glick stated that one of the six issues presented in the original audit has been resolved and the remaining five are either in the process of being resolved or management has chosen not to implement the recommendations because they are satisfied with the current procedures. Mr. King addressed

the Committee, on behalf of management, and stated that the recommendations of the IAD were valid and appreciated; however, management felt its current practices were sufficient and that the audit recommendations would add pressure in an already stressful work environment of a call center and could undo recent progress made with regard to increased morale and productivity.

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

Mr. Glick presented the Quarterly Internal Audit report. Since the report covered the period ending December, 2014, which is outdated by almost three month, Mr. Glick provided a verbal update to that report. The IAD currently has two audits that have not been performed yet, which are the Qualified Domestic Relations Orders (Quadros) and Software Licensing; however, they should be complete by the end of June. The Data Security audit is 40% complete and should be on the May 12, 2015, OAC agenda. The audit plan for the next two years will be on the May 12, 2015, OAC agenda as well.

9. Request for Future Agenda Items

Previously noted was a request from Dr. Jacob for staff to provide a list of major functions the ASRS would like to have that the current technology doesn't provide and are not on the current technology development plan.

Mr. Guarino will work with staff on updating the proposed meeting topics list for the OAC to ensure it is up-to-date.

10. Call to the Public

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

11. Adjournment

Mr. Tyne adjourned the meeting at 12:11 p.m.

Respectfully Submitted,

ARIZONA STATE RETIREMENT SYSTEM

Melanie Alexander
Committee Administrator

Anthony Guarino
Deputy Director and Chief Operations Officer