



ARIZONA STATE RETIREMENT SYSTEM

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September 8, 2005

Ms. Deborah K. Davenport, Auditor General
Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

Enclosed is the Arizona State Retirement System (ASRS) response to the findings contained in the performance audit and sunset review from the Office of the Auditor General.

I would like to commend the staff of the Office of the Auditor General on their professionalism and responsiveness during the course of this audit. They ensured that the audit process proceeded smoothly with a minimum of disruption to daily operations. It has been a pleasure to work with them.

As noted in our response, the ASRS is generally in agreement with all of the findings and their recommendations and will work to implement them in a timely fashion.

Sincerely,

Paul Matson
Director

Finding 1: ASRS' investment management generally appropriate

1. The ASRS Real Estate Committee should adopt their draft policies and procedures for investment in real estate.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

2. The ASRS should use procedures developed by other state pension plans to help guide its future development of real estate investment procedures.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Finding 2: ASRS should improve its performance in paying some benefits

1. To improve the timeliness of paying new retiree annuities, ASRS should:
 - a. Complete the incorporation of the new retiree function into its main data system by December 2006 to allow it to initialize annuities based on currently available data instead of waiting for employer verification of final payroll details.
 - b. Complete its ongoing project to convert members' paper and microfiche files to electronic images by June 2006.
 - c. Study the cost of implementing a second monthly pay date for new retirees' annuities, weighing any potential impact upon currently scheduled IT projects against the benefit of reducing new retirees' wait times for receiving annuity payments.

The findings of the Auditor General are agreed to and the audit recommendations will be implemented.

Fast and reliable benefit processing is a critical business objective for the ASRS, and a cornerstone of the agency's business re-engineering and technology efforts. Once the ASRS' efforts in these areas are fully complete, members of the ASRS will experience benefit payment processing service that is equal to or better than its peer retirement systems.

As suggested, we will study whether it is feasible and cost effective to implement recommendation 1c in a way that will provide a more immediate benefit to members, yet avoid disruption to planned efforts to improve this process.

2. To improve the accuracy of paying new retiree annuities, ASRS should update all procedure documents related to processing new retirees, and provide training to its staff for the automated calculation of the highest average monthly salary once this new function is operational.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Revisions of desk procedures related to the processing of new retirees are currently under development. For example, a new automated calculation of the highest average monthly salary was implemented in July 2005. Training associated with the new salary calculation has been completed for some staff, and is in the process of being completed for others. This new calculation, and also the revised desk procedures, will be incorporated into our efforts to further automate and re-engineer this business process in 2006.

3. To improve the timeliness of paying refunds, ASRS should complete its efforts to fully incorporate this function into its main computer system by April 2006.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Automation and process re-engineering efforts are underway and are proceeding as planned. It is our expectation that the entire refund process will be significantly improved when this effort is complete, including reducing the turnaround time for some payments to as few as ten business days.

Finding 3: ASRS should monitor and assess its plan for improving call center performance

1. To provide more accurate call volume projections to assist in future staffing plans, ASRS should consider the feasibility of tracking both the primary and secondary reasons for incoming calls.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

We agree that it is beneficial in many ways to have data regarding the reason(s) for a member's call. Accordingly, we will work to improve our reporting in this area. Any changes made to our reporting capabilities must carefully weigh the benefit of receiving additional data versus the additional time it may take for call center agents to record the data.

2. If the call center is able to achieve its performance objectives with fewer staff than required by the staffing plan, ASRS should redeploy any excess staff to other areas requiring assistance.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

At this time, it is evident to us that both a higher number and more highly skilled staff are needed to improve call center performance. However, should the ASRS meet its performance goals for the call center with fewer staff than anticipated, staff will be utilized to improve the timeliness of its service audit process, walk-in service, responses to member e-mails, correspondence, and appeals.