

**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM**  
**BOARD OF TRUSTEES OPERATIONS, GOVERNANCE POLICY and AUDIT COMMITTEE MEETING**

May 26, 2010

**Minutes**

*Members Present:* Mr. Brian Tobin, Chairman  
Mr. Gregory Ferguson, Member

*Others Present:* Mr. Jim Hacking, Administrator  
Ms. Tracey Peterson, Chief Operating Officer  
Ms. Karen Lewis, Accounting Manager  
Mr. Sam Meier, IT Network and Communications  
Mr. Tom Willard, Systems Development Manager  
Ms. Bridget Feeley, Internal Audit and Compliance Officer  
Ms. Susanne Dobel, Member Services Manager  
Mr. Robert Ortega, Local Board Coordinator/HR  
Ms. Gail Nova, Administration Manager  
Mr. Paul C. Hemmes, Training / Audio Visual Specialist

The **Operations, Governance Policy and Audit Committee** meeting of the Board of Trustees was held on Wednesday, May 26, 2010 at 10:00 A.M. in the internal conference room at 3010 East Camelback Road, Suite 200, Phoenix, Arizona 85016.

**A. Call to Order**

The meeting was called to order by Chairman Tobin who announced that Mr. Delfs and Judge Olson are no longer on the committee due to legislation that was passed ending Special Advisers.

**B. Review and possible **Acceptance** of the minutes from the March 31, 2010 Operations, Governance Policy, and Audit Committee meetings.**

<b>MOTION: 5-26a-10</b>	At 10:09 A.M.
<b>Motion:</b>	To accept the minutes of the March 31, 2010 committee meeting.
<b>Moved by:</b>	Greg Ferguson
<b>Seconded by:</b>	Brian Tobin
<b>Discussion:</b>	None
<b>In Favor:</b>	All
<b>Motion:</b>	Passes

**C. Agenda Items**

1. Discussion and *possible **recommendations** for Action by the Board of Trustees* to utilize services of a bank for processing of benefit and refund disbursements and other payroll related items.

This agenda item is a continuation from last month. Ms. Peterson, Chief Operating Officer, walked the committee members through the information that was handed out in preparation for this meeting. The packet contained:

- a. Marketing for Mellon's Business Continuity and Disaster Recovery processes.
- b. Fees to outsource monthly pension payments which are \$1.00 per piece (excluding postage) including all 1099's and quarterly filings.

Mr. Ferguson stated the fee can be eliminated by not sending out paper statements. Mr. Hacking mentioned the information is available on the PSPRS website for members and we can notify members, as of a date certain, that SurePays will no longer be mailed to them and their statement is available on the Members Only website.

It was added by Ms. Peterson that ending the SurePay notices is one part of the benefit of using Mellon and the other is comfort of having business continuity/disaster planning handled so that in the event something occurs to the building, benefit payments would be made. The fee for this is \$1.00 per person.

- c, Earnings Credit Plus program where, if we maintain an account balance of about 82 million dollars non-invested cash, can be used to offset the cost of processing the payment, but more research is needed to learn more about this program.

Mr. Tobin thought the move to Mellon is a good idea for the Business Continuity/Disaster Plan. Staff members currently processing pension payroll have to be moved to work on other initiatives which are to be understood by the Board. More research is needed before the next Board meeting regarding the phase-out program of SurePay notices and outsourcing payroll for business continuity reasons.

2. Presentation by Karen Lewis, Accounting Manager, of the proposed FY 2011 PSPRS administrative budget and *possible recommendations for Action* by the Board of Trustees.

Opening remarks were made by Mr. Hacking who pointed out that the FY 2010 spending on June 30 is expected to be less than what was budgeted. He said he had asked the managers to keep in mind the budget for FY 2011 was to be not more than 95% of the FY 2010 actual projected spending. PSPRS is currently about \$157,000 under the overall projected actual budget for this fiscal year. It was pointed out there are two Investment Department proposed FY 2011 budgets: one by the Administrator and the other by the Chief Investment Officer.

Budget items were discussed and some of the savings are in three unfilled positions, reduction of the defined contribution plan from 6% to 3% matching and other items. Discussion was held regarding the two proposed Investment Department budgets. Mr. Parham stated his version includes promotions of two investment staff members, the filling of a vacant position and the creation of a new position, that of a risk officer. Savings in the investment budget have been created by renegotiating some fees in the proposed FY 2011 consultant contracts.

Mr. Ferguson wishes to see the written policy regarding the investment bonus at the next meeting. Mr. Hacking included the fact that if Mr. Parham's budget is approved, the overall budget savings will be improved and that he is in favor of the proposal.

Discussion was held about the PSPRS response to a second letter from the Arizona Department of Administration (ADOA) regarding furlough days and performance pay. ADOA's letter said that there is no specific exemption for PSPRS in the language of HB 2003 that requires ending performance pay and compliance with the six furlough days to be set by ADOA. Mr. Hacking stated our response included the fact PSPRS has never participated in the performance pay program; therefore there is nothing to give up and that six furlough days were included in the letter. Two of the six days match those that were set by ADOA and the other four are preferred by PSPRS due to the proposed days interfering with pension payroll processing and trading on the exchanges. PSPRS asked for approval of these four days, otherwise we are in compliance.

Mr. Ferguson suggested legislation be proposed specific to exemption of PSPRS if a special session is called.

A discussion was held about contingency funds which are not in the proposed budgets since the plan is to return the budget to the Board for possible adjustment(s) if unanticipated expenses occur.

<b>MOTION: 5-26b-10</b>	At 11:25 A.M.
<b>Motion:</b>	To recommend approval of the budget with the recommendation from the Chief Investment Officer with concurrence of the Administrator.
<b>Moved by:</b>	Greg Ferguson
<b>Seconded by:</b>	Brian Tobin
<b>Discussion:</b>	None
<b>In Favor:</b>	All
<b>Motion:</b>	Passes

Ms. Feeley, Internal Audit and Compliance Officer, discussed with the Committee that currently the Internal Audit/Compliance Officer budget does not have the authority to hire people, if needed, for specific projects and that she might come back to the Board at a later date regarding the Compliance Budget since compliance reports directly to the Board.

Chairman Tobin will be sent the Torus IT Assessment Report.

3. Status report from Tom Willard, Program Development Manager, and the staff regarding backup plans for IT Network and Database with *possible recommendations for Action* by the Board of Trustees.

A description of the various methods of Database backup at PSPRS was given by Mr. Tom Willard, Program Development Manager. All SQL Server databases are backed up to our main offsite backup every hour. The main discussion was about a secondary failsafe backup his team has done for years, storing a daily offsite backup of all databases and program source code in a bank vault. He talked about his desire to move away from using a bank vault, and going to an internet backup site called ibackup.com instead. He said there are two reasons for the switch; the time it takes to go to the bank twice a day to pickup and deliver portable hard disks, and the fact that the bank is discouraging us because of the frequency of our visits. Mr. Willard plans to run the ibackup.com backups about 3am in the morning each day. The backups are compressed and encrypted. PSPRS holds the encryption key. Mr. Willard told the committee that he has high confidence in ibackup.com.

<b>MOTION: 5-26c-10</b>	At 11:40 A.M.
<b>Motion:</b>	To stop daily bank vault back up.
<b>Moved by:</b>	Greg Ferguson
<b>Seconded by:</b>	Brian Tobin
<b>Discussion:</b>	None
<b>In Favor:</b>	All
<b>Motion:</b>	Passes

4. Written update on the progress of the Local Board Training Program with possible discussion and *recommendations for Action* by the board of Trustees.

A statement was made by Chairman Tobin to report this to the Board as an informational item.

5. Presentation by Bridget Feeley, Internal Audit and Compliance Officer, of the FY 2011 Audit Plan and Risk Assessment and *possible recommendations for Action* by the Board of Trustees.

This agenda item was tabled until the June meeting.

6. Update by Bridget Feeley, Internal Audit and Compliance Officer, and discussion regarding compliance and internal audit with *possible recommendations for Action* by the Board of Trustees.

This is disposed of by agenda item number 5.

- D. Call to the Public: This is the time for the public to comment. Members of the committee may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01(G), the subcommittee's reaction to any public comment is limited to recommending that the Board of Trustees or staff respond or study such comment or schedule the subject matter for further consideration at a later date after appropriate notice.

There were no members of the public present.

- E. Schedule next meeting

The next meeting is to be held on Wednesday, June 23, 2010.

- F. Adjournment

The meeting was adjourned at 11:45 a.m.

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Brian Tobin, Chairman

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Greg Ferguson, Member