A. Call to Order, Roll Call, Opening remarks.

Chairman Tobin called the meeting to order at 11:00 a.m.
Mr. Maguire was excused.

B. Review and possible Action to accept the minutes from the November 17, 2010 Operations, Governance Policy, and Audit Committee meeting.

MOTION: 2-1-11  At 11:01 a.m.
Motion: To accept the minutes of the November 17, 2010 Operations, Governance Policy, and Audit Committee meeting.
Moved by: Mr. Ferguson
Seconded by: Mr. Tobin
Discussion: None
In Favor: Unanimous
Motion: Passes

C. Agenda Items:

1. Status report regarding Fiscal Year 2011 proposed legislative initiatives and possible Recommendation(s).…………………………………………………………………………………………Mr. Jim Hacking Administrator

Mr. Hacking reviewed the proposed legislative initiatives and will give a more detailed report to the full Board at the 1:00 p.m. meeting today. Three bills that reflect changes made by the Board of Trustees with respect to the Public Safety Personnel Retirement System (PSPRS) Plan and the application of the approved changes in the context of the proposed bills for CORP and EORP have been introduced by Rep. Robson. They are: House Bill 2198 for the Elected Officials’ Retirement Plan (EORP); House Bill 2199 for the Public Safety Personnel Retirement System (PSPRS); and House Bill 2200 Corrections Officer Retirement Plan (CORP).
On the Senate side, PSPRS has two files still open in the name of Sen. Russell Pearce that are to be used for the System’s administrative proposals. One gives the Board of Trustees explicit authority to enter into employment agreements with key PSPRS employees. The other proposal is for miscellaneous administrative items approved by the Board. The draft of the first proposal has been completed and is fine. It will probably be introduced in the name of Sen. Yarbrough. The second bill has been sent back to the legislative counsel to be redone and hopefully will be introduced in clean format early next week. It looks as if there may be other bills from constituency groups, but so far none have been introduced.

2. Presentation of the Quarterly Year-to-Date Budget Report for the first quarter of FY 2011 and possible Recommendation............................................................................Ms. Karen Lewis Accounting Manager

The Committee was informed by Ms. Lewis that fiscal-year-to-date, we have expended 51% of the budget; so we are slightly under-budget. Overage are in professional services due to actuarial costs for all the actuarial projections being required and legal fees. 98% of the budget for legal fees has been spent due to the fact we are winding up the legal work of Kutak Rock. Mr. Hacking stated that we have had to provide actuarial projections for our own use and for the use of our constituent groups and policymakers that have cost approximately $219,000 as of December 31, 2010. Also, we have ordered computers for replacement of the old machines currently being used by staff members and a new printer/scanner to replace the one that has outlived its useful life. On the other hand, there are three staff positions that were budgeted for this fiscal year; however, they all remain vacant.

The Committee asked staff to look for areas in which we can save money and to report back to them on a monthly basis. Mr. Ferguson asked that in future years, there be an effort to consolidate the requested actuarial projections.

3. Presentation of the Quarterly Operations Report for the first quarter of the FY 2011 and possible Recommendation.................................................................Ms. Tracey Peterson Chief Operating Officer

Ms. Peterson described statistical trends for the members of the Committee. Retirements, refunds and the number of persons entering Drop are increasing, perhaps due to proposed legislation. Contributions are less than last year at this time, even though the employer contribution rates are higher than last year. There has also been a spike in service purchases for PSPRS and CORP. She concluded by saying that we expect the aforementioned trends to continue. At the request of Mr. Tobin, a report on the number of DROP applications will be presented at the next meeting.

4. Presentation, discussion and possible Recommendation that the Board of Trustees approve the posting on the System’s website of legal guidance (prepared by the System’s counsel) concerning Disability Retirement Applications for PSPRS Members Participating in the Deferred Retirement Option Plan,...............................................................................................Mr. Jim Hacking

A legal opinion regarding disability retirement applications for PSPRS members participating in DROP was prepared by legal counsel some time ago Mr. Hacking told the Committee. The Committee recommended that this be posted on the PSPRS website as a guide for use by local boards.

5. Written presentation of the compliance/audit strategy for the Local Board Network and possible Recommendation.................................................................Mr. Robert Ortega
See Item #6 since the discussion for both Agenda Items 5 and 6 was held at the same time.

6. Written update on the progress of the Local Board Training Program with Discussion and possible Recommendation

Mr. Ortega reported that the webinar schedule is set through June; the monthly newsletter continues to be distributed; and he and the Member Services staff are fielding an increase in phone calls regarding proposed legislation.

Regarding local board audits and compliance, a program has been drafted, with the assistance of Ms. Bridget Feeley and Mr. Ron Snodgrass; it sets forth the key items that should be reviewed when meeting with local boards. A local board module is being developed by the information technology staff which will track the progress of each local board with respect to audit/compliance.

Mr. Ron Snodgrass, who is a consultant for the PSPRS training and mentoring program and who had 26 years of experience with a local board and 4 years as a member of the Fund Manager, has seen a need for training, mentoring, and compliance for many years. He began consulting with PSPRS in 2009. Mr. Snodgrass told the Committee that local boards cannot be held accountable until they are trained. Education and compliance are critically important and once the database is fully developed, we can find where the needs are that have to be addressed.

Mr. Snodgrass suggested that PSPRS might consider centralizing disability hearings at the PSPRS Administrative Office; this might provide greater efficiency and reduce costs. This would take remove any “personalization” of the disability determination process and avoid the all too frequent local board personnel changes and the lack of experience they entail.

Mr. Ferguson disagreed with the idea of centralizing the disability hearing process in the Administrative Office. Instead, he suggested that greater emphasis be placed on training the local board secretaries and have regional boards for the disability hearings. Mr. Tobin stated that, since the budgets for the local boards are down, the local boards are reluctant to spend the money necessary to conduct the independent medical exams and make use of competent legal counsel. Mr. Tobin would like staff to research how other public funds throughout the U.S. handle their disability hearings and report back in March.

Mr. Ortega indicated that there may be a need for specific statutory authority to hold local boards accountable when we transition to audit/compliance reviews. Mr. Snodgrass is working with staff to change form P5 (which is a “Findings Form” and is used for disability applications) to make it easier for the staff to review the local board minutes.

Mr. Tobin and Mr. Ferguson noted the need to review the local board processes. He observed that a properly functioning board should be able to reduce its costs of operation through increased efficiency. He concluded by asking for a discussion at the March meeting about statutory changes to the local board processeses and how other pension plans of the same size process disabilities.

7. Review, discussion and Appropriate Action regarding the January 2011 bill for legal services performed in December 2010

The January bill for legal services performed in December, 2010 was a little over $73,000. There are several items Mr. Hacking mentioned he wishes to discuss with Mr. Marc
Lieberman. Due to this, the Committee made no recommendations and wished to have this agenda item discussed this afternoon during the full Board of Trustees meeting.

8. Presentation, discussion and possible **Recommendation** regarding compliance and internal audit..............................................................................................................Ms. Bridget Feeley Internal Audit and Compliance Officer

Ms. Feeley stated the only thing she was reporting on was investments and there are no compliance issues.

9. 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(H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for a later date for further consideration and possible recommendations to the Board of Trustees.

No members of the public answered the Call to the Public.

10. Schedule next meeting

   The next committee meeting will be held February 23, 2011 tentatively at 10:00 a.m.

11. Adjournment

   **MOTION: 2-2-11** At 12:05 p.m.
   Motion: To adjourn the meeting.
   Moved by: Mr. Ferguson
   Seconded by: Mr. Tobin
   Discussion: None
   In Favor: Unanimous
   Motion: Passes