

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

AUDIT COMMITTEE MEETING

January 8, 2020

Minutes

Present: Mr. Jim Ameduri, Committee Chairman
Mr. William Buividas, Trustee
Mr. Scott McCarty, Trustee
Mr. Harry Papp, Trustee – telephonic

Others Present: Mr. Michael Townsend, Administrator
Bret Parke, Esq., Assistant Administrator/General Counsel
Kevin O'Malley, Esq., Gallagher & Kennedy – telephonic
Mr. Allan Martin, Partner, NEPC, LLC
Mr. Don Smith, Trustee
Mr. Mike Scheidt, Trustee
Mr. Christopher Hemmen, Trustee
Mr. Dean Scheinert, Trustee – partially telephonic (left at 1:54 PM)
Mr. Brian Moore, Trustee
Mr. Christian Palmer, Communications Director
Mr. Mark Steed, Chief Investment Officer
Mr. Mike Ajamie, Chief Technology Officer
Ms. Liz Rozzell, Chief Financial Officer
Mr. Tim Jackson, Compliance Officer
Ms. Cheryl Cohen, Investments Executive Assistant
Ms. Claudia Martinez, Executive Assistant
Terence Thompson, Esq., Gallagher & Kennedy
Mr. Robert Ortega, Member Services Director
Mr. Jason Ostroski, CliftonLarsonAllen LLP - telephonic
Mr. Chris Heinfeld, Heinfeld, Meech & Co PC
Mr. Cory Arvizu, Heinfeld, Meech & Co PC

1. Call to Order; Pledge of Allegiance; Roll Call; Opening remarks.

*Jim Ameduri
Committee Chairman*

The meeting was called to order by Committee Chairman Ameduri at 8:18 AM. The Pledge of Allegiance was recited and roll was called.

2. 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.

There was no response to the Call to the Public.

3. Review, discussion and possible Approval of the Minutes of the December 13, 2019 and December 16, 2019 Audit Committee Meetings.

Mr. Jim Ameduri

Moved by: Mr. Scott McCarty
Second by: Mr. William Buividas
Time: 8:21 AM
Motion: Approve minutes as presented.
Discussion: None
Vote: 4 – 0 Passed

4. Consideration and possible Recommendation to Board of Trustees: Preparation of the FY 2018-19 Comprehensive Annual Financial Report (CAFR) and completion of the associated annual audit.

Mr. Jim Ameduri

Mr. Ameduri asked Mr. Parke and Ms. Liz Rozzell to give a detailed background since their arrival in October of 2018. They advised there were multiple concerns such as Mr. Ortega and Ms. Rozzell not on the leadership team, accounting practices, current processes and procedures, lack of general ledger, Sr. Accountant not reporting to Ms. Rozzell and Ms. Rozzell having 1:1's with Mr. Parke although she reported directly to the Deputy Administrator, Mr. DeJonge. Ms. Rozzell advised she had difficulties in being effective in her position and did not feel empowered to complete the duties of a Chief Financial Officer. Mr. Parke advised the reporting structure has since been changed and Ms. Rozzell is now a part of the leadership team. Ms. Rozzell also was asked to give a brief description of her background. No knowledge of fraud or materialistic misreporting. Discussion was held with Heinfeld Meech & Co PC, Townsend and Liz regarding the Management letter and the concerns management had of the functionality of the general ledger system and the lack of internal controls. Mr. McCarty questioned whether management would sign the management letter and the Committee decided to discuss in Executive Session.

Moved by: Mr. Scott McCarty
Second by: Mr. William Buividas
Time: 9:09 AM
Motion: Enter Executive Session
Discussion: None
Vote: 4 – 0 Passed

Committee returned to public session at 9:27 AM.

Mr. McCarty asked for the transmittal letter (page 14 of the CAFR) to be signed by the Chief Financial Officer. Ms. Rozzell advised that although she does not believe the letter belongs in the documents she is willing to sign the letter.

Moved by: Mr. Scott McCarty
Second by: Mr. Jim Ameduri
Time: 9:38 AM
Motion: Direct Staff to review Trustee letter to ensure it is factually correct to the best of their ability and redline any edits for the Audit Committee to review and further discuss.
Discussion: Mr. Townsend advised that to the best of his knowledge the statements in the document are accurate. Discussion about invoicing and the prior process was held due to the document stating that some employers did not pay the correct actuarially required contributions.
Vote: 3 – 1 Passed (Mr. William Buividas, OPPOSED)

Staff provided a presentation to the Committee and discussion was held regarding the presentation. Staff asked the Board for direction regarding the management letter.

Moved by: Mr. Scott McCarty
Second by: Mr. William Buividas
Time: 10:23 AM
Motion: Audit Committee to support Staff in signing the management letter as presented.
Discussion: None
Vote: 4 – 0 Passed

Committee recessed at 10:28 AM until 1:00 PM.

Committee reconvened at 1:00 PM.

Committee and staff held discussion regarding the general ledger.

Mr. Arvizu and Mr. Heinfeld with Heinfeld, Meech & Co PC provided a presentation to the Committee. Presentation included the audit procedures, timing of the audit, summary of results and 2018 audit and examination related to GASB 68 and 75. Mr. McCarty asked staff to clarify certain information on the Finding and Responses document, update on net appreciation and update on the census data to which Ms. Rozzell responded with clarification and update. Committee, staff and Heinfeld, Meech & Co PC engaged in conversation regarding the findings.

Committee recessed at 1:58 PM until 2:30 PM.

Committee reconvened at 2:32 PM.

Mr. Heinfeld continued to by outlining the deficiencies found. Mr. Arvizu addressed the management representation letter and Trustee letter advising it is not common for such letters to be added to the CAFR.

Committee proceeded with reviewing the CAFR. Mr. McCarty stated that the transmittal letter should include additional information such as changes to actuarial assumptions, funded status and asset allocation changes.

Moved by: Mr. Scott McCarty

Second by: Mr. Harry Papp

Time: 2:43 PM

Motion: Direct Staff to redraft transmittal letter to include the additional information noted above.

Discussion: None

Vote: 4 – 0 Passed

Mr. McCarty continued by discussing page 23 through 30, in the CAFR, questioning if the fact that employers paid more contributions is noted and how that played a factor in increasing the net position. Mr. McCarty questioned what the source to the statement “Maintain a goal for the Fund’s assets to be equal to the Fund’s liabilities within a twenty year period” on page 72 was and for clarification on “additional ER contributions” on page 137 to which Ms. Rozzell advised she would follow-up after further review.

Moved by: Mr. Scott McCarty

Second by: Mr. Jim Ameduri

Time: 2:58 PM

Motion: Direct Staff to return with revised pages 23 through 30 and answers for questions noted above regarding pages 72 and 137 before approval.

Discussion: None

Vote: 2 – 2 Failed (Mr. McCarty and Mr. Ameduri voted in favor)

Moved by: Mr. William Buividas

Second by: Mr. Harry Papp

Time: 2:59 PM

Motion: Recommend to the Board of Trustees approval of CAFR and Annual Audit with the Board of Trustees letter, subject to delegation of Staff completing revisions and clarifying questions Mr. McCarty requested above, assuming they are not materialistic.

Discussion: None

Vote: 2 – 2 Failed (Mr. Buividas and Mr. Papp voted in favor)

5. **The Committee may vote to go into Executive Session (which will not be open to the public) to discuss matters pursuant to A.R.S. §§ 38-431.03(A) (2), (3), and (4), as applicable, including to receive legal advice from the Board's attorneys on any matter listed on the agenda, including:**
 - a. **Discussion and consultation with legal counsel and Staff regarding preparation of the FY 2018-19 Comprehensive Annual Financial Report (CAFR) and completion of the associated annual audit as authorized by A.R.S. §§ 38-431.03(A) (2) (3) and (4).**

6. Schedule future meeting date(s). (No future meetings currently scheduled.)

No future meeting were scheduled.

7. Adjournment.

Moved by: Mr. William Buividas

Second by: Mr. Harry Papp

Time: 3:01 PM

Motion: Adjourn meeting.

Discussion: None

Vote: 4 – 0 Passed

Mr. Jim Ameduri, Committee Chairman