




# Public Safety Personnel Retirement System

## Initial Followup of Report 23-109

The September 2023 Arizona Public Safety Personnel Retirement System (System) performance audit and sunset review found that the System and Legislature have taken various steps to improve pension plans’ sustainability and ability of public safety and corrections officers’ pension plans to meet retirement obligations for plan members, but despite these efforts, the elected officials’ pension plan’s status declined further, the System’s former administrator entered into business relationships with 2 former Board members, and all 3 participated in decisions that could have been influenced by these relationships. We made **6** recommendations to the System.

### System’s status in implementing 6 recommendations

Implementation status	Number of recommendations
 Implemented	4 recommendations
 In process	1 recommendation
 <b>Not implemented</b>	<b>1 recommendation</b>

We will conduct a 24-month followup in the Fall 2025, on the status of the recommendations that have not yet been implemented.

# Recommendations to the System

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## **Finding 1: Former System Administrator entered business relationships with 2 former Board members and all 3 failed to disclose and refrain from participating in decisions that could be influenced by their relationships.**

1. The System should develop and/or revise and implement conflict-of-interest policies and procedures to help ensure it complies with State conflict-of-interest requirements and follows recommended practices, including:

a. Storing and tracking all substantial interest disclosures in a special file available for public inspection.

▶ Status: **Not implemented.**

The System has developed some policies and procedures that require any substantial interest disclosures made by its employees to be stored in a special file available for public inspection. However, the System's policies and procedures do not require Board members' substantial interest disclosures to be stored in its special file. Instead, contrary to statute, which requires all substantial interests made by a public officer to be stored in a special file available for public inspection, the System's policies and procedures state that Board members' substantial interest disclosures are not subject to public disclosure.

Additionally, as of October 2024, the System reported it has not stored any substantial interest disclosures in its special file because it has not received any; however, our review of System employees' and Board members' completed disclosure forms from calendar years 2023 and 2024 found multiple instances of System employees and Board members disclosing potential substantial interests for which the System did not document its review and determination of whether the disclosures were substantial and should be stored in its special file. These disclosures included the following:

- 1 Board member and 1 executive investment employee, who disclosed an investment-related business relationship they indicated might influence their independence. Not only did these disclosures include a potential substantial interest, the relationship they disclosed was also potentially prohibited by the System's Code of Ethics. Specifically, the executive investment employee disclosed receiving compensation from a Board member for an investment-related business relationship and indicated it might influence their independence, despite the System's Code of Ethics prohibiting a System employee from accepting compensation that could be expected to impair independence.
- 1 senior portfolio manager who disclosed ownership of a security investment-related business.
- 1 Board member who disclosed personal investments in securities that are also held in the System's investment portfolio.

- 1 executive employee with authority to approve all System investments who disclosed that an immediate family member is a member of 1 of the System's pension funds.

Further, our review of Board members' and employees' disclosure forms found that 2 Board members and 1 employee disclosed business and investment-related relationships with 3 other Board members that were potentially conflicts-of-interest, such as providing investment advisory services to a Board member. However, these 3 Board members did not similarly disclose these relationships on their own disclosure forms.

Although the System has developed some conflict-of-interest policies and procedures as previously discussed, it lacks comprehensive policies and procedures to ensure full compliance with all State conflict-of-interest requirements. Specifically, the System has not yet established policies and procedures and/or guidance for:

- Ensuring System employees and Board members disclose all potential conflicts of interest.
- Requiring Board member disclosures to be included in the special file, as required by statute.
- Reviewing disclosed interests to determine whether any disclosures meet the statutory definition of a substantial interest and storing all substantial interest disclosures made by Board members and employees in the System's special file.
- Remediating disclosed interests as necessary, including documenting its review and remediation of substantial interests.

As a result, the System and its Board members and employees are at risk of violating State conflict-of-interest laws and requirements and that substantial interests might improperly influence official employee and Board member conduct and System decisions. We will assess the System's development and implementation of comprehensive conflict-of-interest policies and procedures to help ensure compliance with all State conflict-of-interest laws and requirements during our 24-month followup.

- b.** Reminding employees at least annually to update their disclosure form if/when their circumstances change.

- ▶ **Status: Implemented at 12 months.**

The System updated its policies and procedures in December 2023 to require its employees to complete a conflict-of-interest disclosure form when hired and annually within the first month of each calendar year thereafter, or within 30 days if or when an employee's circumstances change. In January 2024 and 2025, the System sent an email requiring its employees to complete a disclosure form.

2. The System should develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to all employees on how the State’s conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

▶ Status: **Implementation in process.**

In April 2024, the System developed and began providing training to employees on its conflict-of-interest requirements, process, and disclosure form. However, the training does not include information about how the State’s conflict-of-interest requirements relate to the System’s unique programs, functions, or responsibilities. Additionally, as discussed in the explanation for recommendation 1a, the System has not developed comprehensive conflict-of-interest policies and procedures to help ensure compliance with all State conflict-of-interest laws and requirements. We will further assess the Department’s implementation of this recommendation during our 24-month followup.

## **Sunset Factor 2: The extent to which the System has met its statutory objective and purpose and the efficiency with which it has operated.**

3. The System should continue providing quarterly census data to and working with the Arizona Department of Administration to reconcile the active member personnel data between the State’s payroll records and the data provided to the System’s actuaries and investigate and resolve any errors prior to providing the information to its actuaries.

▶ Status: **Implemented at 12 months.**

The System has developed an automated process for providing quarterly census data to the Arizona Department of Administration (ADOA) to help reconcile the active member personnel data between the State’s payroll records and the data provided to the System’s actuaries, and reported that it has provided ADOA the ability to correct any identified errors in the System’s pension administration system.

4. The System should continue including member data in employer and local board internal audits and implement its plans to expand the audit work to include comparing member data reviewed to the data provided to the actuaries to help identify inaccuracies in the data.

▶ Status: **Implemented at 12 months.**

The System has continued to include member data in employer and local board internal audits and expanded the audit work to include comparing member data reviewed to the data provided to the actuaries to help identify inaccuracies. Specifically, our review of 5 employer and local board internal audits the System reported were in process as of February 2025, found that the audits included this expanded audit work.

**Sunset Factor 5: The extent to which the System has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.**

5. The System should ensure that meeting minutes, or digital recordings, are available upon request within 3 working days of public meetings, as required by statute.

▶ Status: **Implemented at 12 months.**

Our review of Board meeting minutes for the Board's May and June 2024 meetings found that the System made its meeting recordings available for public inspection within 3 working days after the meeting, as required by statute.