

**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
CORRECTIONS OFFICER RETIREMENT PLAN
ELECTED OFFICIALS' RETIREMENT PLAN**

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Deputy Administrator

November 8, 2011

Ms Debra K. Davenport, CPA
Auditor General
State of Arizona
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Auditor General Davenport:

On behalf of the Board of Trustees of the Public Safety Personnel Retirement System (PSPRS), I wish to thank you and your staff for forwarding to us for our review and comment a copy of the report of the procedural review of PSPRS that your Office has conducted over the last several months.

Having completed our review, we are pleased to note that the report confirms the appropriateness of the actions that the PSPRS Board and staff have taken over the last several years to address and correct the problems that were the specific focus of the procedural review – namely, the inadequacy of the controls with respect to the review of the billings for legal services that caused legal service costs to rise so dramatically from 2005 through 2009 and the lack of diversification in the System's deployment of assets for investment purposes.

As the report accurately discloses, the new policies and procedures that PSPRS put into place in the spring of 2009 reduced legal expenditures by 54% from FY'09 to FY'10. In addition, our continuing efforts to use a variety of legal service providers, including the Arizona Attorney General's Office, and bring a significant portion of our legal work in-house should further reduce the System's costs for legal services.

With respect to the our efforts to diversify the deployment of assets for investment purposes, the report properly notes that our diversification efforts have substantially reduced the adverse impact that the performance in any one asset class can have on the System's total investment return. As the System has diversified, its reliance on equities in general and U.S. equities in particular has declined dramatically – from over 70% of the total portfolio at the end of FY'06 to just over 41% at the end of FY'10. The Board's diversification efforts were undertaken with the objectives of reducing risk and generating a more stable pattern of investment returns going forward.

We would like to take this opportunity to commend you and your audit staff for the thoroughness of the review and the clarity of the report. We are happy that we were able to be of assistance in this matter and are appreciative of having had the opportunity to facilitate your audit work.

Sincerely,

James M. Hacking
PSPRS Administrator