



**COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

Financial Audit

Year ended December 31, 2010

(With Independent Auditors' Report Thereon)

**LEGISLATIVE AUDIT COMMITTEE**

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KPMG LLP, *Contract Auditors*

## COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

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# **COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

Financial Audit

Report Summary

Year ended December 31, 2010

## **Purpose and Scope**

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado Public Employees' Retirement Association (PERA) for the year ended December 31, 2010. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from December 2010 to June 2011.

The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of PERA as of and for the year ended December 31, 2010. This includes a consideration of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate PERA's compliance and report on internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior audit findings and recommendations.

## **Audit Opinion and Reports**

We expressed an unqualified opinion on PERA's financial statements as of and for the year ended December 31, 2010.

Two audit adjustments were proposed and made to the financial statements.

We issued a report on PERA's internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We noted no instances involving the internal control over financial reporting and its operation that we consider to be a material weakness.

## **Summary of Key Findings**

We did not identify any material weaknesses in PERA's internal control during our audit of the 2010 financial statements.

**COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

Financial Audit

Report Summary

Year ended December 31, 2010

**Summary of Progress in Implementing Prior Year Audit Recommendations**

The audit report for the year ended December 31, 2009 included three recommendations. The disposition of these audit recommendations as of June 17, 2011 was as follows:

Implemented	2
Implemented and ongoing	1

**COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

Financial Audit

Recommendation Locator

Year ended December 31, 2010

<b>Rec. no.</b>	<b>Page no.</b>	<b>Recommendation summary</b>	<b>PERA response</b>	<b>Implementation date</b>
		No material weaknesses in internal control were noted during our 2010 audit.		

## **COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

### **Financial Audit**

#### **Description of the Colorado Public Employees' Retirement Association**

**Year ended December 31, 2010**

#### **Organization**

PERA was established in 1931. PERA administers cost-sharing multiple-employer defined benefit plans for the State Division Trust Fund, School Division Trust Fund, Local Government Division Trust Fund, Judicial Division Trust Fund, and the Denver Public Schools Trust Fund (Division Trust Funds). PERA also administers cost-sharing multiple-employer defined benefit other postemployment benefit plans (Health Care Trust Fund and Denver Public Schools Health Care Trust Fund), a private purpose trust fund (Life Insurance Reserve), and three multiple-employer defined contribution plans. The purpose of the Division Trust Funds is to provide benefits to members at retirement or disability, or to their beneficiaries in the event of death. Members of PERA are employed by public employers located in the State of Colorado and affiliated with PERA.

Responsibility for the organization and administration of the Division Trust Funds, Health Care Trust Funds, the Life Insurance Reserve, and the defined contribution plans is placed with the board of trustees of PERA.

The number of active affiliated employers for the five Divisions is as follows as of December 31, 2010:

State	70
School	271
Local government	142
Judicial	6
Denver Public Schools	28
	<hr/>
Total employers	517
	<hr/>

## **COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

### **Financial Audit**

#### **Findings and Recommendations**

**Year ended December 31, 2010**

In planning and performing our audit of the basic financial statements of Colorado Public Employees' Retirement Association (PERA) as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered PERA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PERA's internal control. Accordingly, we do not express an opinion on the effectiveness of PERA's internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated June 17, 2011 on our consideration of PERA's internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since June 17, 2011.

The maintenance of adequate internal control designed to fulfill control objectives is the responsibility of management. Because of inherent limitation in internal control, errors or fraud may nevertheless occur and not be detected. Additionally, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We did not identify any deficiencies in internal control that we consider to be a material weakness, as defined above.



**COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

**Financial Audit**

**Disposition of Prior Audit Findings and Recommendations**

**Year ended December 31, 2010**

The following table presents the audit recommendations made for the year ended December 31, 2009 and their disposition as of June 17, 2011.

<b>Recommendation</b>	<b>Disposition</b>
<b>Recommendation No. 1</b>  During our audit, we noted that PERA does not have a policy to review its approved vendor list to assess whether all vendors on such list were valid entities and whether they were appropriately included. The potential impact of not periodically updating an approved vendor list is to allow for payments to be made to unauthorized or inappropriate vendors. We have recommended to management that it establish and implement a policy to review its approved vendor list on at least an annual basis to ensure that all vendors paid are appropriate and approved.	<b>Implemented</b>
<b>Recommendation No. 2</b>  During our audit, we noted there were certain internal control matters related to the segregation of duties and documentation of testing and approval procedures within the IT area. These matters create the potential for unauthorized changes to systems and undocumented testing and approval over program changes and development. We have recommended to management that enhancements to these controls be implemented to mitigate the risks noted above from occurring.	<b>Implemented</b>

**COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION**

**Financial Audit**

**Disposition of Prior Audit Findings and Recommendations**

**Year ended December 31, 2010**

The following table presents the audit recommendation made for the year ended December 31, 2008 and its disposition as of June 17, 2011.

<b>Recommendation</b>	<b>Disposition</b>
<b>Recommendation No. 1</b>	<b>Implemented and Ongoing</b>
PERA should work with the Governor and the General Assembly to seek changes in the employer and/or member contributions and other plan provisions for the State, School, and Judicial Divisions to achieve a 30-year amortization period, which is the maximum period deemed actuarially sound under legislation and the maximum acceptable period under Governmental Accounting Standard No. 25, <i>Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans</i> .	PERA worked with the Governor and the General Assembly to enable Senate Bill 10-001 to be passed in the 2010 General Session. Senate Bill 10-001 addressed the matters noted in the above recommendation.



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## Independent Auditors' Report

Board of Trustees  
Colorado Public Employees' Retirement Association:

We have audited the accompanying statements of fiduciary net assets of each major fiduciary fund and the related statements of changes in fiduciary net assets of each major fiduciary fund of the Colorado Public Employees' Retirement Association (PERA) as of and for the year ended December 31, 2010, which collectively comprise PERA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of PERA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative combined information has been derived from PERA's December 31, 2009 financial statements, and in our report dated July 30, 2010, we expressed an unqualified opinion on the respective financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fiduciary fund of the Colorado Public Employees' Retirement Association as of December 31, 2010, and the respective changes in fiduciary net assets of each major fiduciary fund for the year then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 11 to the financial statements, the funded ratio of the actuarial accrued liability as of December 31, 2010 was 62.8% for the State Division, 64.8% for the School Division, 73.0% for the Local Government Division, 75.0% for the Judicial Division, 88.9% for the Denver Public Schools Division Trust Fund, 17.5% for the Health Care Trust Fund, and 17.9% for the Denver Public Schools Health Care Trust Fund. These funded ratios were derived using an 8% investment rate of return and discount rate and the actuarial value of assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2011, on our consideration of PERA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 22 to 47 and Required Supplementary Information on pages 80 to 87 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information, and we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise PERA's basic financial statements. The Introductory Section on pages 3 to 18, Supplementary Schedules on pages 88 to 90, and the Investment, Actuarial, and Statistical Sections on pages 93 to 188 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplementary Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information contained in the Introductory, Investment, Actuarial, and Statistical Sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

KPMG LLP

June 17, 2011



KPMG LLP  
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**Independent Auditors' Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Legislative Audit Committee:

We have audited the financial statements of the major fiduciary funds of the Colorado Public Employees' Retirement Association (PERA) as of and for the year ended December 31, 2010, and have issued our report thereon dated June 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered PERA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PERA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PERA's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether PERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of PERA in a separate letter dated June 17, 2011.

This report is intended solely for the information of the Legislative Audit Committee and management and the Audit Committee of PERA, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 17, 2011



KPMG LLP  
Suite 2700  
707 Seventeenth Street  
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June 17, 2011

Members of the Legislative Audit Committee

We have audited the financial statements of each major fiduciary fund of the Colorado Public Employees' Retirement Association (PERA) as of and for the year ended December 31, 2010, and have issued our report thereon, dated June 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

#### **Our Responsibility under Professional Standards**

We are responsible for forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of the audit committee, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the audit committee of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of PERA's internal control. Accordingly, we do not express an opinion on the effectiveness of PERA's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the audit committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

#### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing PERA's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the PERA's Comprehensive Annual Financial Report, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

## **Significant Accounting Policies and Unusual Transaction**

### ***Significant Accounting Policies***

The significant accounting policies used by PERA are described in note 2 to the financial statements.

As described in note 2, PERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

### ***Unusual Transaction***

Effective January 1, 2010, the Denver Public Schools Retirement System was merged into PERA. This merger has been reflected in PERA's financial statements.

### ***Qualitative Aspects of Accounting Practices***

We have discussed with the audit committee and management our judgments about the quality, not just the acceptability, of PERA's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of PERA's accounting policies and their application, and the understandability and completeness of PERA's financial statements, which include related disclosures.

## **Management Judgments and Accounting Estimates**

The preparation of the financial statements requires management of PERA to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of contributions, investment income (loss), and deductions during the reporting period.

Management's estimate of the valuation of alternative investments is based on periodic relevant financial information, the value of comparables, independent appraisals, or other relevant data. We evaluated the key factors and assumptions used to develop the valuations, including possible management bias in developing the estimate, in determining that the valuation of alternative investments is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the division and Health Care Trust Funds' pension liability is based on various actuarial assumptions. We evaluated the key factors and assumptions used to develop the pension liability, including possible management bias in developing the estimate, in determining that the estimate of the pension liability is reasonable in relation to the financial statements taken as a whole.

## **Uncorrected and Corrected Misstatements**

In connection with our audit of PERA's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in PERA's books and records as of and for the year ended December 31, 2010. We have reported such misstatements to management on a Summary of Audit Differences and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.



Members of the Legislative Audit Committee  
June 17, 2011

In addition, during the course of our audit, we identified and discussed with management certain material financial statement misstatements that were corrected by PERA. Specifically, we proposed corrections relating to the amounts recorded for securities lending in the Voluntary Investment Program and the amounts recorded for claims paid in the Health Care Trust Fund and DPS Health Care Trust Fund that if not corrected would have caused the respective financial statements to have been materially misstated. Attached is a copy of the adjustments that have been discussed with management and corrected by PERA.

#### **Disagreements with Management**

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' reports on the PERA's financial statements.

#### **Management's Consultation with Other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended December 31, 2010 as it relates to the 2010 audit of PERA.

#### **Significant Issues Discussed, or Subject to Correspondence, with Management**

##### ***Major Issues Discussed with Management prior to Retention***

We generally discuss a variety of matters with the audit committee and management each year prior to our retention as PERA's auditors. However, these discussions occur in the normal course of our professional relationship, and the result of these discussions was not a condition to our retention.

##### ***Material Written Communications***

Management has been provided copies of the following material written communications between management and us:

- 1) Management representation letter
- 2) Management letter
- 3) Engagement letter

#### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

#### **Independence**

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all relationships between our firm and PERA and persons in a financial reporting oversight role at PERA and provide confirmation that we are independent accountants with respect to PERA.

We are not aware of any independence-related relationships between our firm and PERA.

Members of the Legislative Audit Committee  
June 17, 2011

***Confirmation of Audit Independence***

We hereby confirm that as of June 17, 2011, we are independent accountants with respect to PERA under all relevant professional and regulatory standards.

\* \* \* \* \*

This letter to the Legislative Audit Committee is intended solely for the information and use of the Legislative Audit Committee and management and the Audit Committee of PERA, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

**Colorado Public Employees' Retirement Association**  
**Summary of Corrected Financial Statement Misstatements**  
**As of and for the Year Ended December 31, 2010**

**Voluntary Investment Program**

Securities lending obligation	\$11,949,000
Securities lending collateral	\$11,860,000
Securities lending income	\$89,000

*To reflect correct balances for securities lending balances as of December 31, 2010*

**HCTF Funds**

Claims paid – DPS	\$2,293,000
Interfund receivable – HCTF	\$2,293,000
Interfund payable – DPS	\$2,293,000
Claims paid – HCTF	\$2,293,000

*To record allocation of Caremark claims paid to DPS HCTF for year ended December 31, 2010*

**Colorado Public Employees' Retirement Association**  
**Summary of Uncorrected Financial Statement Misstatement**  
**As of and for the Year Ended December 31, 2010**

**HCTF Funds**

Interfund transfers – HCTF	\$97,000
Interfund receivable – DPS	\$97,000
Interfund payable – HCTF	\$97,000
Interfund transfers – DPS	\$97,000

*To reflect correct allocation of purchased service transfers for the year ended December 31, 2010*

The electronic version of this report is available on the Web site of the

Office of the State Auditor

[www.state.co.us/auditor](http://www.state.co.us/auditor)

A bound report may be obtained by calling the

Office of the State Auditor

303-869-2800

Please refer to the Report Control Number below when requesting the report.

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