

**COLORADO PUBLIC EMPLOYEES'
RETIREMENT ASSOCIATION**

**LEGISLATIVE AUDIT COMMITTEE REPORT
Year Ended December 31, 2006**

With Reports of Independent Auditors

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To the Board of Trustees of
Colorado Public Employees' Retirement Association

We have completed our audit of the financial statements of the Colorado Public Employees' Retirement Association ("PERA") for the year ended December 31, 2006, and have issued an unqualified opinion thereon dated June 8, 2007. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We were engaged to conduct our audit pursuant to Section 24-51-204(6) of the Colorado Revised Statutes, which authorizes the State Auditor to conduct or cause to be conducted audits of PERA. Sections 2 and 3 of this report set forth the recommendations we have issued as part of our audit. Our audit opinion is located in the Comprehensive Annual Financial Report available from PERA.

Clifton Gunderson LLP

Denver, Colorado
June 8, 2007

SECTION 1
AUDIT REPORT SUMMARY

**COLORADO PUBLIC EMPLOYEES'
RETIREMENT ASSOCIATION
AUDIT REPORT SUMMARY
December 31, 2006**

Audit of PERA Benefit Plans for the Year Ended December 31, 2006

Our audit of the December 31, 2006 financial statements of PERA is complete and we issued our unqualified report thereon dated June 8, 2007. There are no matters which we believe require the Audit Committee's specific attention.

- The financial statements of PERA have been prepared in conformity with accounting principles 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.
- The scope of our audit was reported to the PERA Audit Committee. There were no significant variations from the planned scope.

As part of our audit of the financial statements of PERA, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Based on the results of our work, our review of PERA's internal control has not disclosed any weaknesses which we believe to be material weaknesses under standards established by the American Institute of Certified Public Accountants. Refer to the Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* on page 5-3. In addition, we examined PERA's compliance over financial reporting with certain provisions as included in Colorado Revised Statutes and PERA Rules. Based on the results of our work, our review of PERA's compliance with certain provisions of laws, regulations, and contracts has disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, for the year ended December 31, 2006.

Cooperation with Management

We are pleased to inform you that we received full cooperation of the officers and employees of PERA, and we were furnished with all of the information and explanations required to perform our audit.

Communications with Audit Committee

Our responsibility for assuring that the Audit Committee is made aware of significant matters, as required by our professional standards, is outlined in Exhibit I.

Independence

We reiterate our firm's policy on independence, which stipulates that neither Clifton Gunderson LLP partners nor staff assigned to the audit of PERA are permitted to have any direct or material indirect interest in PERA. Adherence to the policy of independence is reaffirmed annually in writing by each member of our professional staff.

To the best of our knowledge, there are no circumstances or relationships between PERA and Clifton Gunderson LLP that would impair our independence in reporting on the PERA's financial statements. We hereby confirm that as of June 8, 2007, we are independent accountants with respect to PERA.

Clifton Gunderson LLP

Denver, Colorado
June 8, 2007

SECTION 2
RECOMMENDATION SUMMARY

RECOMMENDATION SUMMARY

Rec. No.	Page No.	Recommendation	PERA Response	Implementation Date
1	3-2	Monitoring of Voluntary 401(k) Controls	Agree	Ongoing
2	3-3	Amortization of Liabilities	Agree	Ongoing
3	3-7	Electronic Member Information	Agree	March 2007
4	3-8	Business Continuity Plan	Agree	Ongoing

SECTION 3
CURRENT YEAR FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

We have audited the financial statements of Colorado Public Employees' Retirement Association ("PERA") for the year ended December 31, 2006 and have issued our report thereon dated June 8, 2007. In planning and performing our audit of the financial statements, we considered PERA's internal control solely to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered internal control or compliance over financial reporting since June 8, 2007.

Our procedures were designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist.

Recommendations noted in connection with the December 31, 2006 audit are detailed in the following pages.

RECOMMENDATION NO. 1
MONITORING OF 401(K) VOLUNTARY INVESTMENT CONTROLS

Issue 1:

The Voluntary Investment Program is an Internal Revenue Code Section 401(k) defined contribution plan which includes two components. These components are: (1) the voluntary contributions from PERA members (separate from their defined benefit contributions) in the State, School, Local Government, and Judicial Division Trust Funds; and (2) State employees and employer contributions for those State employees hired on or after January 1, 2006 and selecting this defined contribution retirement plan. As of December 31, 2006, net assets in the Voluntary Investment Program were \$1,522,839,000 and the participants totaled approximately 73,000.

CitiStreet has been engaged by PERA to handle most of the administration of the first component of the Voluntary Investment Program. PERA reviews controls of the administration of the program and had another third party administrator review these controls. CitiStreet has received an Independent Service Auditors' Report covering the period from October 1, 2005, through September 30, 2006, in which controls within CitiStreet were described and tested, finding that they were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that control objectives were achieved during this period.

In April 2007, Colorado PERA staff discovered that some rollover distribution requests made by 401(k) Voluntary Investment Program participants were not in compliance with plan provisions. Some documents submitted requesting rollover distributions contained inaccurate statements and allowed participants to rollover account balances to another tax-deferred plan. Distributions were made from a number of accounts before being discovered by Colorado PERA staff. The distributions only affect the accounts of the participants completing the forms and did not affect any other participant account balances. An Internal Revenue Service (IRS) closing agreement related to these distributions is in the initial stages of being formulated and was not completed before the issuance of these financial statements. This IRS agreement will determine if and how distributions would be returned to the 401(k) Voluntary Investment Program.

Although PERA's staff discovered the rollover distributions that were not in compliance with plan provisions through analysis of statistical data, we believe that further monitoring of distribution requests by PERA could help detect inappropriate distributions.

Recommendations:

PERA should consider randomly testing a sample of participants' distribution requests for compliance with plan provisions on a continuing basis covering a cross section of all employers in the Plan.

PERA's Response:

Agree. Colorado PERA agrees with this recommendation and will begin review of a random sample of all 401(k) Plan distribution requests. This random sample will include participant distribution requests from a cross section of all employers to ensure distributions are made in compliance with 401(k) Plan provisions.

Implementation Date:

Ongoing.

**RECOMMENDATION NO. 2
AMORTIZATION OF LIABILITIES**

The following matter, (Issue 2) which was identified and reported on in prior periods, was still in existence during the course of our current audit.

Issue 2:

As part of the preparation of its annual financial statements, PERA is required to estimate the unfunded liability for each of the four divisions that participate in the defined benefit plan offered to state employees. The total estimated unfunded liability as of December 31 is as follows:

	(In thousands)	
	<u>2006</u>	<u>2005</u>
State Division	\$ 4,918,720	\$ 5,004,828
School Division	7,172,949	6,779,747
Local Government Division	675,035	663,905
Judicial Division	<u>36,858</u>	<u>30,650</u>
Combined Unfunded Liability	<u>\$ 12,803,562</u>	<u>\$ 12,479,130</u>

Section 24-51-211, C.R.S., “Amortization of liabilities,” states:

An amortization period for each of the state divisions, school division, local government division, and judicial division trust funds shall be calculated separately. A maximum amortization period of thirty years shall be deemed actuarially sound. Upon recommendation of the Board, and with the advice of the actuary, the employer or member contributions rates for the plan may be adjusted by the general assembly when indicated by actuarial experience.

Through review of the 2006 Actuarial Valuation completed by Cavanaugh Macdonald Consulting, LLC, dated May 2007, it was noted that the remaining amortization period with current funding is infinite for three of the four divisions (State, School and Judicial), as of December 31, 2006, and 48 years for the local government division. In other words, the results of the valuation study indicated that PERA’s current contribution rates are not sufficient to support the current benefit structures of the State, School, and Judicial Division Trust Funds. The funding ratios as of December 31 are as follows:

	<u>2006</u>	<u>2005</u>
State Division	73.0%	71.5%
School Division	74.1%	73.9%
Judicial Division	85.1%	86.3%
Local Government	79.5%	78.0%

In addition, because the amortization period exceeds 30 years for all four divisions (not including the effects of Amortization Equalization Disbursement (AED) or Supplemental Amortization Equalization Disbursement (SAED)), the divisions are not considered actuarially sound under Section 24-51-211, C.R.S.

During the 2006 Session, PERA worked with the Governor and the General Assembly on the passage of Senate Bill 06-235. The major provisions of this bill include:

Senate Bill 06-235. Concerning PERA Benefit Plans (passed by the Legislature in May 2006, and signed by the Governor on May 25, 2006):

- Addition of a Supplemental Amortization Equalization Disbursement (SAED) that will begin in January 2008 at 0.5% per year up to 3%. The shut-off mechanism for the AED and SAED will be changed to 100% funding status on a division by division basis.
- New provisions for new hires after January 1, 2007. Maintain current 2.5% of Highest Average Salary (HAS) as the multiplier factor with a 3 year HAS and an 8% per year cap on salary escalation during HAS years. Change rule of 80 to rule of 85 with a minimum retirement age of 55. Implement a new Cost-of-Living Allowance (COLA) fund dedicated to new hire retirement COLAs at the lower of 3% or the actual Consumer Price Index if retired 1 year and have reached age 60 or if age plus years of service equal 85, limited to available funds.
- The statutorily prescribed amortization period would be reduced from 40 to 30 years.
- A new statutory provision would be enacted that requires the General Assembly to contract for an independent actuarial study before future benefit increases could occur.
- A new requirement to purchase service at full actuarial cost would be enacted.
- Changes to the composition of the Board.
- The expansion of Defined Contribution Choice to institutions of higher education effective January 1, 2008. New employees in higher education would be eligible to select the PERA DB Plan, the PERA DC Plan, or the State DC Plan, in addition to existing Optional Retirement Plans (ORPs) at institutions that have ORPs. This includes faculty and administrators who have not previously had access to the PERA DB, PERA DC, or the State DC Plan. It also includes classified staff that have not been eligible for DC Choice. Current members of ORPs could not elect to participate in PERA DB, PERA DC, or the State DC Plan. (This provision was repealed as provided in HB 07-1377.)

In the opinion of PERA's actuary, "the current funding is sufficient to pay benefit payments through the projected actuarial period of 30 years. Recent contribution changes under SB 06-235 are expected to stabilize the funding levels of the Local Government and Judicial Division trust funds by attaining a 30-year amortization period within the projected actuarial period of 30 years. The recent contribution changes combined with the benefit changes of SB 06-235 are expected to stabilize the State and School Division trust funds by attaining a 30-year amortization within the projected actuarial period based on previous actuarial projections. However, if additional gains do not materialize in the future, increases in funding may be necessary to fund the State and School Divisions." The table below represents the current employer contribution rate, and the employer contribution rate that would be needed at the present time to amortize the unfunded actuarial accrued liability within a 30-year period, as reported by PERA.

Employer Contribution Rates (including AED) as of December 31, 2006:

State Division	10.65%
State Troopers	13.35%
School Division	10.65%
Local Government Division	10.50%
Judicial Division	14.16%

Employer Contribution Rates Needed for 30-Year Amortization as of December 31, 2006:

State Division	17.23%
School Division	16.06%
Local Government Division	11.21%
Judicial Division	15.33%

In addition, with the legislation passed in 2006 and under Governmental Accounting Standard No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, effective for the year ended December 31, 2006, the maximum acceptable amortization period is 30 years.

Based on the current December 31, 2006 valuation, the actuary has calculated the following amortization periods for each fund including all future AED and SAED contributions which were not taken into consideration for the December 31, 2006, Actuarial Valuation:

State Division	infinite
School Division	52 years
Local Government Division	17 years
Judicial Division	28 years

The known effect of the legislation has already corrected the Judicial and Local Government Divisions, and the above calculation of amortization periods only includes the effects of contribution changes from the 2006 legislation on the current populations at December 31, 2006.

Recommendation:

PERA should continue to monitor the effects of the 2006 legislation to determine if the changes will bring the State and School Divisions into compliance with a 30-year amortization. If further analysis indicates that the changes will not bring PERA into compliance, PERA should continue to 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 and School Divisions to achieve a 30-year amortization period which is the maximum period deemed actuarially sound under the new legislation and the maximum acceptable period under Governmental Accounting Standard No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

PERA's Response:

Agree. This recommendation remains as PERA's highest priority. During 2006, significant action was taken to secure legislation to enhance the financial health of the PERA trust funds going forward by limiting liabilities and enhancing revenues toward achieving the required amortization schedule. PERA will continue to monitor the effects of prior years' legislation to ensure that legislative changes will bring the PERA trust funds' respective funded statuses within the required 30-year amortization period.

Implementation Date:

Ongoing.

RECOMMENDATION NO. 3 ELECTRONIC MEMBER INFORMATION

Issue 3:

As of December 31, 2006, 405 affiliated employers were contributing to PERA. For the year ended December 31, 2006, member contributions across all plans from affiliated employers amounted to \$661,794,000. PERA accepts contribution information from some of its affiliated employers in an Excel spreadsheet format. This data is converted, via an internally written PERA application, to a format used by the AS/400 member application system. This application is not properly editing the data entered in the Social Security number (SSN) field.

During our testing of the PERA contribution reporting systems, we noted that entering a non numeric character (in our testing an 'A' was keyed) into the Social Security field did not generate an error during the data conversion process. The non numeric character was replaced with a zero. This incorrect Social Security number was then accepted and processed by the PERA contribution reporting system.

Risk and Implication:

The member database could be corrupted with inaccurate SSN data leading to erroneous contribution reporting.

Recommendation:

PERA should enhance the application used to convert contribution information sent in an Excel spreadsheet format to not allow non numeric data in the Social Security number field.

PERA's Response:

Agree. PERA agrees with this recommendation and has implemented a new data conversion method that will not allow for non-numerical Social Security numbers to be converted to a numerical value if keyed inaccurately by employers who are submitting contribution information. The work was completed under Request for Change #1354 (Add Edit to Contribution Reporting Field) and moved to production on March 6, 2007.

Implementation Date:

March 2007.

RECOMMENDATION NO. 4 BUSINESS CONTINUITY PLAN

Issue 4:

Based upon our review of the PERA Business Continuity Plan (BCP), we noted that evidence of document version control and a record of changes with signatures was not included. Thus it is not clear when changes were made and when changes were approved by management. Additionally, without a date, it is not known whether the most recent version of this critical document is in circulation.

It is important to establish change management procedures to maintain and make changes to the BCP. If changes are required due to testing, reclassification of systems from or to critical or non-critical, locations, or personnel changes, a centralized command and control structure is effective for the maintenance of the plan. That requires every update to be documented for version control. Approval by senior management or the plan owner (i.e. Division Director) whenever changes are done demonstrates effectiveness of the plan at that point during the life cycle of plan.

Risk and Implication:

In the absence of version control and management approval to changes made to the BCP, there may be confusion, disagreement or misplacement of priority in the recovery of business systems and processes for business continuity.

Recommendation:

PERA should formalize the BCP change and maintenance process by ensuring that plan updates and senior management approvals are documented within the BCP, and ensure the most recent version is disseminated to responsible parties.

PERA's Response:

Agree. PERA believes that this recommendation will strengthen our existing state-of-the-art business continuity plan. PERA's implantation of this recommendation will ensure business continuation in the event that PERA offices are inaccessible.

Implementation Date:

Ongoing.

SECTION 4
DISPOSITION OF PRIOR YEAR RECOMMENDATIONS

DISPOSITION OF PRIOR YEAR RECOMMENDATIONS

The following are the audit recommendations included in the Colorado Public Employees' Retirement Association audit report for the year ending December 31, 2005, and their disposition as of December 31, 2006.

2005	Recommendation	Disposition
#1	<u>Employee Criminal Background Checks</u> : PERA should revise its hiring process to include required criminal background checks for employees with access to financial, demographic, or other sensitive information. The necessity and depth of the background check should be based on the employee's position within the organization, and adequate safeguards should be in place with respect to handling information obtained.	Implemented 2006
#2	<u>Alternative Investments</u> : PERA should continue to identify those alternative investments that do not comply with PERA's required reporting policies to provide audited information by March 31 and notify investment advisors of the need to comply with these requirements. PERA should also continue to document and analyze the differences between estimated and audited valuations in cases where audited information was not received in time for inclusion in PERA's audited financial statements, and provide such information to the Board of Trustees.	Implemented 2006
#3	<u>Purchase Order System</u> : PERA should implement a formal purchase order system and develop policies and procedures related to purchasing, such as establishing thresholds over which formal quotes or bids need to be obtained and approved prior to purchase and the documentation that should be maintained.	Implemented May 2007
#4	<u>Amortization of Liabilities</u> : PERA should continue to monitor the effects of the 2006 legislation to determine if the changes will bring the State and School Divisions into compliance with a 30-year amortization. If further analysis indicates that the changes will not bring PERA into compliance, PERA should continue to 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 and School Divisions to achieve a 30-year amortization period which is the maximum period deemed actuarially sound under the new 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> , beginning in 2006	See Recommendation No. 2 in current report

2005	Recommendation	Disposition
#5	<u>Oracle Password Configurations:</u> PERA should establish tighter controls over powerful accounts, such as database administrators (to mitigate the risk of unauthorized access) by ensuring password configurations for DBA's are in compliance with Information System Department policies.	Implemented 2006
#6	<u>Employer Contribution System Edits:</u> PERA should continue to implement the initiatives and edits identified within the Member Information Accuracy Project to improve the accuracy of contributions reporting from employers to PERA and to reduce the risk of incorrect benefit payments. This recommendation requires joint ISD and PERA management corrective action.	Implemented 2006
#7	<u>Controls Over Keyed Access:</u> PERA should ensure that Human Resources routinely receives up-to-date listings of all building master keys provided by building management to all PERA's staff. These listings should be utilized by Human Resources to reclaim keys upon an employee's separation of employment from PERA	Implemented 2006

SECTION 5
REPORTS OF INDEPENDENT AUDITORS

Independent Auditor's Report

Board of Trustees
Colorado Public Employees' Retirement Association
Denver, Colorado

We have audited the accompanying statements of fiduciary net assets and the related statement of changes in fiduciary net assets of the Colorado Public Employees' Retirement Association as of and for the year ended December 31, 2006, which collectively comprise Colorado Public Employees' Retirement Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Colorado Public Employees' Retirement Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Colorado Public Employees' Retirement Association's December 31, 2005, financial statements, and in our report dated June 8, 2007, we expressed an unqualified opinion on the respective financial statements.

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. 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 Colorado Public Employees' Retirement Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the Colorado Public Employees' Retirement Association as of December 31, 2006, and related changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 8, 2007, on our consideration of Colorado Public Employees' Retirement Association's internal control over financial reporting and on 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 compliance. That 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 audits.

The management's discussion and analysis on pages 19 through 31, and the schedule of funding progress and schedule of employer contributions on pages 56 through 61 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Colorado Public Employees' Retirement Association's basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section, investment section, actuarial section and statistical section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gundersen LLP

Denver, Colorado
June 8, 2007

**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***

Board of Trustees
Colorado Public Employees' Retirement Association
Denver, Colorado

We have audited the financial statements of the Colorado Public Employees' Retirement Association (PERA) as of and for the year ended December 31, 2006, and have issued our report thereon dated June 8, 2007. 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 the plan'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 plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the plan's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the plan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the plan's internal control.

Our consideration of internal control over financial reporting 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. 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 the plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, noncompliance with which could have been 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*.

This report is intended for the information of the Colorado Public Employees' Retirement Association Board of Trustees, management of PERA, and the Legislative Audit Committee and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Clifton Gunderson LLP

Denver, Colorado
June 8, 2007

Independent Auditor's Report

To the Board of Trustees of
Colorado Public Employees' Retirement Association

We have examined Colorado Public Employees' Retirement Association's ("PERA") compliance with PERA Rules and the Colorado Revised Statutes related to financial reporting during the year ended December 31, 2006. The following sections were specific to our review:

- PERA Rules
 - 2.90 Actuarial Assumptions
 - 4.40 Refunds
 - 5.30 Payments for Purchase Service Credits
 - 5.40 Interest Rate
 - 10 Increase in Benefits
 - 10.30 Retroactive Effective Date of Retirement or Survivor Benefit

- Colorado Revised Statutes
 - 24-51-206 Investments
 - 24-51-208 Allocation of Moneys
 - 24-51-210 Allocation of Assets and Liabilities
 - 24-51-211 Amortization of Liabilities
 - 24-51-401 Employer and Member Contributions
 - 24-51-405 Refund of a Members Contribution Account
 - 24-51-406 Payments from the Judicial Division
 - 24-51-407 Interest (Member Contributions)
 - 24-51-503 Purchase of Service Credit Related to a Refunded Account
 - 24-51-603 Benefit Formula for Service Retirement
 - 24-51-1206 Health Care Premium Subsidiary
 - 24-51-1403 Expenses of Voluntary Investment Program (VIP)

Management is responsible for PERA's compliance with those requirements. Our responsibility is to express an opinion on PERA's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about PERA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on PERA's compliance with specified requirements.

In our opinion, PERA complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2006.

This report is intended solely for the information and use of management, the Board of Trustees and the Legislative Audit Committee, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record upon release by the Legislative Audit Committee.

Clifton Henderson LLP

Denver, Colorado
June 8, 2007

EXHIBIT I
CLIFTON GUNDERSON LLP RESPONSIBILITY



June 8, 2007

Audit Committee
Colorado Public Employees' Retirement Association

The purpose of this letter is to provide you with information about significant matters related to our audit of the financial statements of Colorado Public Employees' Retirement Association (PERA) for the year ended December 31, 2006, in order to assist you with your oversight responsibilities of the financial reporting process, and so that we may comply with our professional responsibilities to the Audit Committee. This letter is intended solely for the information and use of the Audit Committee and is not intended to be and should not be used by anyone other than this specified party.

We have provided at page 5-3 of this report a letter, dated June 8, 2007, concerning the internal control conditions that we noted during our audit of PERA's financial statements for the year ended December 31, 2006.

Auditor's Responsibility Under Generally Accepted Auditing Standards. Our audit of the financial statements of Colorado Public Employees' Retirement Association for the year ended December 31, 2006, was conducted 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, but not absolute, assurance about whether the financial statements are free of material misstatement. Reasonable assurance in an audit is obtained by examining evidence supporting the amounts and disclosures in the financial statements on a test basis. An audit does not include verification of all transactions and account balances, nor does it represent a certification of the absolute accuracy of the financial statements.

In testing whether the financial statements are free of material misstatement, we focus more of our attention on items with a higher potential of material misstatement, and less on items that have a remote chance of material misstatement. For this purpose, accounting literature has defined materiality as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Although we may make suggestions as to the form and content of the financial statements, the financial

statements remain the representations of management. In an audit, our responsibility with respect to the financial statements is limited to forming an opinion as to whether the financial statements are a fair presentation of PERA's financial position, results of operations, and cash flows.

Significant Accounting Policies. There were no significant accounting policies or their application which were either initially selected or changed during the year.

Management Judgments and Accounting Estimates. Significant estimates include management's estimate of the valuation of certain investments not traded on exchanges and certain real estate investments and alternative investments. These estimates are based on the periodic relevant financial information, the value of comparables, independent appraisals or other relevant data. Significant estimates also include an estimate of PERA's actuarial liabilities based on the actuarial valuation.

Our consideration regarding the reasonableness of valuations for investments not traded on exchanges was based primarily on a review of selected investments' year-end audited financial statements issued subsequent to PERA's year-end close, year-end annual reports, or the most recent quarterly reports for the selected investments. Our consideration regarding the reasonableness of actuarial liabilities was based primarily on a review of the third party actuarial valuation report.

Significant Audit Adjustments. There were no adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process.

Uncorrected Misstatements. There were no uncorrected misstatements noted during our current audit and pertaining to the most recent period presented in the financial statements.

Other Information in Documents Containing Audited Financial Statements. In connection with the PERA's annual report, we did not perform any procedures or corroborate other information included in the annual report. However, we read management's discussion and analysis of financial conditions and results of operations and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

Disagreements With Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to PERA's financial statements or our report on those financial statements.

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Consultations With Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

Major Issues Discussed With Management Prior to Retention. There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Difficulties Encountered in Performing the Audit. There were no difficulties in dealing with management related to the performance of our audit.

We will be pleased to respond to any questions you have regarding the foregoing comments.

Clifton Gunderson LLP

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