



COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Year ended December 31, 2009

(With Independent Auditors' Report Thereon)

LEGISLATIVE AUDIT COMMITTEE

2010 MEMBERS

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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, 2009

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, 2009. 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 2009 to July 2010.

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, 2009. 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, 2009.

One audit adjustment was 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

Implement Periodic Review of Approved Vendors (Significant Deficiency in Internal Control)

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 recommend that PERA 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.

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Report Summary

Year ended December 31, 2009

Enhancement of Program Changes and Program Development (Deficiency in Internal Control)

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.

Recommendations and PERA's Responses

Our recommendations and responses from PERA can be found in the Recommendation Locator section of this report.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended December 31, 2008 included one recommendation. The disposition of this audit recommendation as of July 30, 2010 was as follows:

Implemented and ongoing

1

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Recommendation Locator

Year ended December 31, 2009

Rec. no.	Page no.	Recommendation summary	PERA response	Implementation date
1	6	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.	Agree	August 2010
2	7	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.	Agree	August 2010

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Description of the Colorado Public Employees' Retirement Association

Year ended December 31, 2009

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, and Judicial Division Trust Fund (Division Trust Funds). PERA also administers a cost-sharing multiple-employer defined benefit other postemployment benefit plan (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 Fund, 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 four Divisions is as follows as of December 31, 2009:

State	70
School	196
Local Government	139
Judicial	6
	<hr/>
Total employers	<u>411</u>

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Findings and Recommendations

Year ended December 31, 2009

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, 2009, 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 July 30, 2010 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 July 30, 2010.

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. The significant deficiency described below is not believed to be a material weakness.

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 consider the following deficiency (Recommendation No. 1) in PERA's internal control to be a significant deficiency in internal control.

Implement Periodic Review of Approved Vendors (Significant Deficiency in Internal Control)

PERA currently has approximately 970 vendors in its approved vendor list for nonmembers/retirees related to distributions such as administrative and investment-related expenses, among others. During 2009, these vendors were paid approximately \$661 million.

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. We believe such a review is a best practice from an internal control perspective.

The potential impact of not periodically updating an approved vendor list is to allow for payments to be made to unauthorized or inappropriate vendors.

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Findings and Recommendations

Year ended December 31, 2009

Recommendation No. 1

We recommend that PERA 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.

PERA's Response

Agree: PERA will 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. Prior to the end of the audit, PERA completed a review of all nonmember/retiree payments over \$2,500 for 2009. Every vendor, exclusive of one, was approved by management and reviewed by the executives of PERA. This process will be completed and documented on an annual basis.

Implementation Date: The changes in practice have been implemented. The formal updating of the written policy will be completed by the end of 2010.

Although not considered to be a significant deficiency or material weakness, we noted the following item (Recommendation No. 2) that we would like to bring to your attention.

Enhancement of Program Changes and Program Development (Deficiency in Internal Control)

During our audit, we noted the following related to program changes and program development around the iSeries and PeopleSoft applications. The iSeries application serves primarily as a member and affiliated employer database for PERA. PeopleSoft is PERA's financial reporting application.

- A PERA programmer who has responsibility for developing iSeries code has the ability to develop code and promote code changes to the production environment.
- A PERA programmer who has responsibility for developing PeopleSoft code has the ability to develop code and promote code changes to the production environment.
- PERA's project management policy does not require documentation of the testing done by both IT and the business users prior to all requested changes being moved to production. The policy also does not require documentation of business user approval of the testing done on all requested changes prior to implementation. As a result, we were unable to obtain evidence to document the following:
 - Changes or development activities being tested by both IT and business users.
 - Changes or development activities being approved by both IT and business users prior to being implemented into production.

The impact of the above creates the possibility of the following:

- An individual programmer with the authority to both develop and promote code to production could make unauthorized changes to the iSeries and PeopleSoft systems.
- Changes could be made to the iSeries and PeopleSoft systems without the IT group and business users documenting testing and documenting approval prior to moving changes to production.

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Findings and Recommendations

Year ended December 31, 2009

Recommendation No. 2

PERA should implement the following enhancements:

- Implement segregation of duties by removing the ability of programmers to promote code to the production areas of the iSeries and PeopleSoft production systems. If the implementation of this recommendation is deemed to be nonpractical, then additional mitigating controls should be implemented to reduce/manage the related risk.
- Require documentation of testing and approval of the business users over requested program change and development activities prior to implementation. As part of this process, policies should be enhanced to provide details for when evidence of testing is required and what specific evidence is needed.

PERA's Response

Agree: PERA agrees that separation of function over the development and promotion of software is an integral component of the software development process. PERA's current application development policy recognizes three distinct roles relating to software development. The three roles are developer, release manager, and promotion manager. The developer is responsible for developing and maintaining software and submits the software changes to the release manager. The release manager is responsible for preparing the submitted software changes for release to production and serves as the backup to the promotion manager for a specific platform/environment. The promotion manager is responsible for promoting the compiled code onto the production servers. The promotion manager has no development responsibilities. Due to the size of PERA's application development staff, PERA application development policy allows for one developer from each development area to serve in the role of release manager. The developer who serves in the dual role is a senior-level employee who has extensive technical knowledge of the platform being supported.

Due to the size of PERA's application development staff, it is not practical to completely remove the ability for the individuals serving in release manager role from moving software to production. PERA will add an additional control to our policy. PERA will modify policy to require executive approval before a release manager is authorized to move compiled code to production.

PERA agrees that user testing and acceptance are important in the successful implementation of technology changes. PERA's project management policy does require documentation of user testing and user acceptance for projects meeting a large-scope threshold. PERA will enhance the existing policy to expand the criteria in which documentation of user testing and documentation of user acceptance prior to implementation is required.

Implementation Date: The changes in practice will be implemented in August 2010. The Information Technology and Application policy guide will be formally updated to reflect these changes as part of PERA's yearly review and update of the policy guide. The formal updating of the policy guide will be completed by the end of 2010.

PERA's responses to the significant deficiency and deficiency identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Financial Audit

Disposition of Prior Audit Findings and Recommendations

Year ended December 31, 2009

The following table presents the audit recommendation made for the year ended December 31, 2008 and its disposition as of July 30, 2010.

Recommendation	Disposition
Recommendation No. 1 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> .	Implemented and Ongoing 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.



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202-3499

Independent Auditors' Report

Board of Trustees
Colorado Public Employees' Retirement Association:

We have audited the accompanying statement of fiduciary net assets of the fiduciary funds and the related statement of changes in fiduciary net assets of the fiduciary funds of the Colorado Public Employees' Retirement Association (PERA) as of and for the year ended December 31, 2009, 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 information has been derived from PERA's December 31, 2008 financial statements, which were audited by other auditors whose report thereon dated June 18, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 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 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 fiduciary funds of the Colorado Public Employees' Retirement Association as of December 31, 2009, and the respective changes in fiduciary net assets of the fiduciary funds 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 as of December 31, 2009 of the actuarial accrued liability was 67.0% for the State Division, 69.2% for the School Division, 76.2% for the Local Government Division, 77.3% for the Judicial Division, and 14.8% for the Health Care Trust Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2010, 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 24 to 49 and Required Supplementary Information on pages 83 to 89 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 20, Supplementary Schedules on pages 90 to 92, and the Investment, Actuarial, and Statistical Sections on pages 95 to 175 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 schedules and information contained in the Introductory, Investment, Actuarial, and Statistical Sections 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.

KPMG LLP

July 30, 2010



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707 Seventeenth Street
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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 fiduciary funds of the Colorado Public Employees' Retirement Association (PERA) as of and for the year ended December 31, 2009, and have issued our report thereon dated July 30, 2010. 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. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency that is described in the schedule of findings and recommendations (2009 No. 1). A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

PERA's responses to the findings identified in our audit are described in the Findings and Recommendations section of this report. We did not audit PERA's responses, and accordingly, we express no opinion on them.

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

KPMG LLP

July 30, 2010



KPMG LLP
Suite 2700
707 Seventeenth Street
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July 30, 2010

Members of the Legislative Audit Committee:

We have audited the financial statements of Colorado Public Employees' Retirement Association (PERA) as of and for the year ended December 31, 2009, and have issued our report thereon, dated July 30, 2010. 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. However, during the course of our audit, we identified a deficiency in internal control that we consider to be a significant deficiency. Our required communications to you in writing, under professional standards, of all significant deficiencies in internal control identified during our audit were provided to you under separate cover.

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.

Members of the Legislative Audit Committee
July 30, 2010

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.

Unusual Transactions

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

As a result of Senate Bill 09-66, PERA became the administrator and trustee of the new Deferred Compensation Plan, which received a plan transfer from the State of Colorado's 457 plan as of July 1, 2009. Senate Bill 09-66 also consolidated the State DC Plan under PERA. All assets held under the State DC Plan were transferred to PERA effective July 1, 2009.

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 Fund 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

We did not identify any uncorrected misstatements.

In addition, during the course of our audit, we identified and discussed with management a material financial statement misstatement that was corrected by PERA. Specifically, we proposed a correction relating to the recognition of proceeds related to a settlement received by an investment of the Deferred Compensation plan. Attached is a copy of the adjustment that has been discussed with management and corrected by PERA.

Members of the Legislative Audit Committee
July 30, 2010

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, 2009 as it relates to the 2009 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 (findings and recommendations included in this report)

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.

Confirmation of Audit Independence

We hereby confirm that as of July 30, 2010, we are independent accountants with respect to PERA under all relevant professional and regulatory standards.

* * * * *

Members of the Legislative Audit Committee
July 30, 2010

This letter to the Legislative Audit Committee is intended solely for the information and use of the Legislative Audit Committee and management 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 Misstatement
As of and for the Year Ended December 31, 2009

Deferred Compensation Plan

Other liabilities	\$1,492,000
Other additions	\$1,492,000

To reflect settlement funds received in 2009 as settlement income

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

Office of the State Auditor

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.

Report Control Number 2067