Office of the State Auditor (OSA)

Financial and Compliance Audit of the Colorado Public Employees' Retirement Association (PERA)
For the Year Ended December 31, 2025

Responses to Prospective Bidder Inquiries

1. What were the audit fees for the prior 3 years? Per the ACFR, the audit fee for fiscal year ending December 31, 2024 appears to have been $365k, but in 2023 it was $423k and in 2022 was $258k. What is the reason for the fluctuations?

   Response:

   The contract fee for Calendar Year 2022 for the financial and compliance audit was $206,500; for 2023 the contract fee was $216,825; and for 2024 the contract fee was $227,450. The fluctuations for the contract fees is the increase each year for the contract. The audit fees noted in the ACFR are not solely the contract pricing for the financial audit. According to PERA staff, these amounts on the ACFR include accounting and audit professional services, not just the external financial audit fee.

2. Please provide the hours incurred by the prior auditor for each of the past 3 years.

   Response:

   The actual number of hours and levels of audit staff for this audit was not provided to us.

3. Does PERA prefer fieldwork be in-person or hybrid?

   Response:

   According to PERA staff, hybrid fieldwork is acceptable. While some walkthroughs might be best done in person, many walkthroughs and meetings are conducted virtually.

4. When did the interim fieldwork occur? How many auditors were out in the field during interim? For how many days?

   Response:

   According to PERA staff, for the 2024 audit: January 13-17, 2025—Monday to Friday (virtual), January 21-23, 2025—Tuesday to Thursday (on-site). Two auditors were on-site for 3 days.

5. When did final fieldwork occur? How many auditors were out in the field during final fieldwork? For how many days?

   Response:

   According to PERA staff, Final fieldwork: April 21-25, 2025—Monday to Friday (virtual), April 28-29—Monday and Tuesday (on-site two auditors).

6. During the prior audit, did the prior auditor identify any audit adjustments or deficiencies in internal controls? Can a copy of the prior auditor communication of these items be provided?

   Response:

   The auditor's communications are included in the audit report. PERA's year ended December 31, 2024 audit report has not yet been released by the Legislative Audit Committee. It is scheduled to be presented to the Legislative Audit Committee on August 11, 2025. Once the report is released it will be available on our website at https://leg.colorado.gov/audits-for-department/Public-Employees%27-Retirement-Association. In PERA's year ended December 31, 2023 audit report, there were no audit adjustments or deficiencies in internal control noted. That report can be found at https://leg.colorado.gov/audits/colorado-public-employees-retirement-association-fiscal-year-ended-december-31-2023.

7. Were there any prior audit recommendations that PERA is currently in progress of implementing? If so, please describe the nature of the recommendations.

   Response:

   Audit reports are confidential until released by the Legislative Audit Committee. PERA's year ended December 31, 2024 audit report has not yet been released by the Legislative Audit Committee. It is scheduled to be presented to the Legislative Audit Committee on August 11, 2025. Once the report is released it will be available on our website at https://leg.colorado.gov/audits-for-department/Public-Employees%27-Retirement-Association. There were no prior audit recommendations in PERA's audit reports prior to 2024 and therefore there were no recommendations that PERA was in progress of implementing in 2024.

8. Were there any adjustments proposed, posted or waived, by the auditors for FY 2024 or FY 2023?

   Response:

   Audit adjustments are included in the audit report as part of the Independent Auditors' Communication to Those Charged with Governance. Audit reports are confidential until released by the Legislative Audit Committee. PERA's year ended December 31, 2024 audit report has not yet been released by the Legislative Audit Committee. It is scheduled to be presented to the Legislative Audit Committee on August 11, 2025. Once the report is released it will be available on our website at https://leg.colorado.gov/audits-for-department/Public-Employees%27-Retirement-Association. For PERA's year ended December 31, 2023, no adjustments were proposed by the auditors. This can be found on printed page 12 of that audit report, which can be found at https://leg.colorado.gov/audits/colorado-public-employees-retirement-association-fiscal-year-ended-december-31-2023.

9. In section 2. Audit Scope, paragraph 1b notes a required reporting element is to cover "disposition of any prior year audit recommendations"—what specific audit recommendations did PERA receive for the year ended December 31, 2024?

   Response:

   Audit recommendation are included in the audit report. Audit reports are confidential until released by the Legislative Audit Committee. PERA's year ended December 31, 2024 audit report has not yet been released by the Legislative Audit Committee. It is scheduled to be presented to the Legislative Audit Committee on August 11, 2025. Once the report is released it will be available on our website at https://leg.colorado.gov/audits-for-department/Public-Employees%27-Retirement-Association.

10. When do you typically receive/plan to receive the GASB 67/74 actuarial valuations each year?

    Response:

    According to PERA staff, below is the GASB-related report production schedule for the 2024 ACFR. We expect similar GASB report-delivery timing each year.

    - February 18, 2025, Tuesday—Segal provides the first draft of GASB reports with proforma asset values.
    - March 18, 2025, Tuesday—Segal provides the second draft of GASB proforma reports with edits.
    - April 24, 2025, Thursday—Segal provides the third draft of GASB reports reflecting final asset values.
    - May 9, 2025, Friday—Segal provides final GASB reports.

11. Regarding the performance of census/payroll audits, pages 5 and 6 of the RFP indicates that PERA's auditor can perform this or request that the individual employer auditors issue a separate engagement in compliance with AT-C 205. What method has been utilized in the past?

    Response:

    The previous contract auditor requested that a sample of individual employer auditors issue a separate engagement in compliance with AT-C Section 205. In consultation with the OSA and PERA, the previous contract auditor selected a representative group of contributing employers on a rotating basis. Employers were selected in accordance with the AICPA's Audit and Accounting Guide, Paragraph 13.62, Exhibit 13-1. PERA then notified each selected employer of their responsibility to engage their auditor to perform the engagement at the employer's expense.

12. Please describe management's and/or the internal auditor's procedures to determine the completeness and accuracy of employer census data for each plan. Does PERA's current audit firm leverage work performed by the internal auditor or other internal controls performed at PERA for census data testing?

Response:

According to PERA staff, at the annual designated time, programs are run by PERA's Application Development team to capture and cut the census date as of December 31—the end of the plan/calendar year. This process produces three files for the annual actuarial process and an additional three mirror files that contain the exact information, but also some additional information for Internal Audit, as follows:

Version to be sent to the Board's Actuarial Service Provider

- Annuitant [Defined Benefit (DB) Plan]
- Active and Inactive [DB Plan]
- Active and Inactive [Defined Contribution (DC) Plan]

Version created for Internal Audit (includes the same records as in the files above, plus additional "excluded" records and field descriptions as to why excluded – so that Internal Audit can reconcile actual census data records to PERA's complete database)

- Annuitant [DB Plan]
- Active and Inactive [DB Plan]
- Active and Inactive [DC Plan]

Internal Audit reviews these files periodically and has found no significant issues in recent years.

Providing Data to Vendor

The three "raw data" files produced for the Board's external actuarial service provider are reviewed for reasonableness and consistency by PERA's Actuarial Services Division prior to secure transmission to the Board's external actuarial service provider. Just following, the same three "raw data" files are provided to the auditing firm selected and designated to serve PERA. Following completion of the annual actuarial valuation process, the Board's external actuarial service provider provides PERA and the designated auditing firm with the "final" or "groomed" data used in the valuation process.

13. Is the current auditor coordinating with OSA to rely on census data testing performed by selected employer's auditors through an examination engagement? If so, is this their complete sample or are other employers also selected to be tested independently?

Response:

In consultation with the OSA and PERA, the previous contract auditor selected a representative group of contributing employers on a rotating basis. Employers were selected in accordance with the AICPA's State and Local Governments Audit and Accounting Guide, Paragraph 13.62, Exhibit 13-1. PERA then notified each selected employer of their responsibility to engage their auditor to perform the engagement at the employer's expense. The prior auditor also reported to PERA's Board that they also performed data analytics testing on census data that included comparing the benefit payment register to the actuarial census provided by the actuary for differences such as persons included or excluded and differences between the average benefit payments by fund reported by the actuary versus the actual payment history; comparing the contributions detail to the actuarial census provided by the actuary to search for incomplete or inaccurate data such as improperly reported individuals and comparing covered payroll; and reconciling key factors such as head count, covered payroll, and average benefit payments in the census files to the funding valuation report. The prior auditor also stated they leverage data analytics performed over contributions and benefit payments to test the active and retiree census data for completeness and accuracy.

According to PERA staff, the current auditor selects a sample of employers and obtains attestation reports from either the state auditor for employers from the State of Colorado or employer auditor for other employers on the completeness and accuracy of the active member census data.

14. How many employers were selected for census testing in the prior 2 years for each cost sharing plan?

Response:

The number of selected employers by year is as follows:

Division	Number of Employers selected in 2024	Number of Employers selected in 2023
State	6	6
School	10	6
Local Government	7	6
Judicial	1	1
Denver Public Schools	1	1

15. Have there been any significant changes in the composition of members / census in the past year or anticipated in the next 5 years?

    Response:

    According to PERA staff, no significant changes; however, over the last few years, there has been a recent increase in:

    - Safety Officers (perhaps significant to the population of "Safety Officers"), as the definition of those qualifying for a "State Trooper" benefit structure has been legislatively expanded.
    - Provisions requiring benefit offsets, under certain circumstances for retirees returning to work, while still in pay status, have been legislatively relaxed due to "critical shortages" and/or "need".

16. Section IV of the RFP indicates that there are attachments/related exhibits, which include the standard OSA contract. However, there appears to not be any attachments—can these be provided?

    Response:

    To view the contract template, please download the RFP from the OSA's website at https://leg.colorado.gov/agencies/office-state-auditor/requests-proposals, save the pdf, and then open the saved file in Acrobat. You should be able to see the contract template and the exhibits as attachments. If you can't see the attachments, click the paperclip icon. (You will not see linked attachments in a pdf preview.)

17. Please confirm who is responsible for report preparation for all reports (PERA or auditor).

    Response:

    According to PERA staff, Colorado PERA is responsible for preparing all reports.

18. Does PERA have an internal audit department? If so, are they expected to provide to the annual financial statement audit process?

    Response:

    According to PERA staff, PERA's internal audit team will share its annual audit plan and released reports so that the external auditors can select work to rely on for planning and assessing risks. The internal audit division can also help facilitate meetings and information sharing. The Audit Committee of PERA's Board of Trustees has consistently asked the external auditors about how they use Internal Audit work.

    PERA's internal audit team has historically participated in most external audit walkthroughs. However, the internal audit team does not directly contribute to fieldwork testing for the external auditors.

19. Regarding the new fund for 2025:

- Will the contribution be made one time during the year or will there be multiple contributions throughout the year?

Response:

According to PERA staff, the Colorado State Treasurer will transfer $125 million on: July 1, 2025, July 31, 2025, August 29, 2025, and September 30, 2025.

- What is the dollar amount of anticipated contributions in 2025 to this fund?

Response:

According to PERA staff, the new fund contributions will total $500 million.

- Will the investments for this fund mirror the investment allocation of the existing funds?

Response:

According to PERA staff, PERA will add the contributions to the combined investment fund (CIF).

20. What financially significant systems and platforms are used for general ledger, investment accounting, and benefits administration?

Response:

According to PERA staff, General ledger: PeopleSoft (may be replaced in the next two years with Workday.). Investment Accounting: MS Excel, MS Access, SS&C FundHub, Northern Trust Passport

Benefits Administration: iSeries pension administration system, iSeries AR system.

21. Have there been changes to financially significant systems in the past year or planned for the next 5 years?

Response:

According to PERA staff, Colorado PERA is researching replacing PeopleSoft with Workday, including AR, within the next two years.

Also, some phases of the pension administration system replacement may occur within the next five years, although a final schedule is not yet available.

As part of the Investment Systems Modernization Project, PERA contracted with SS&C for its FundHub system. FundHub is the investment book of record for PERA's private market investments. Migration is expected to be completed by January 31, 2026.

22. Are there any anticipated changes in key third party service providers in the next year (investment custodian, actuary, etc.)?

Response:

According to PERA staff, the Board's next custodian bank review is scheduled for 2028, and the actuary's contract is effective through December 31, 2028, so any potential change could occur as early as 2028 or 2029.

23. Are SOC-1 reports available for all third parties utilized by PERA?

Response:

According to PERA staff, we obtain Empower and Schwab SOC-1 reports for the defined contribution plans. Additionally, NT and eSec SOC-1 reports are obtained. Insurance obtains SOC-1 reports for health care providers. SS&C FundHub also has a SOC-1. We will obtain and review their report starting in 2025 as we were not live with any private market asset classes in 2024.

24. Are the investments held by PERA pooled and then allocated to various funds?

Response:

According to PERA staff, the Division Trust Funds, the Health Care Trust Funds, and the Life Insurance Reserve pool their investments into a combined investment fund (CIF). Investment value and earnings of the CIF are allocated among the funds based on each fund's percentage ownership. The three defined contribution funds pool investments. Investment earnings and assets are allocated monthly.

25. Are there any internally managed funds for PERA? If so, what are the investment types and the approximate dollar amounts?

- Who maintains the book of record for the internally managed funds?

Response:

According to PERA staff, for the defined benefit plan, Colorado PERA internally managed $12.78 billion of fixed income investments, $27.47 billion of global equities, and approximately $1.89 billion of real estate investments as of 12/31/2024.

For the defined contribution plans, Colorado PERA internally managed $197 million of global equities and $3.1 billion of global equities as of 12/31/2024.

Our custodian, Northern Trust, is the book of record for our public markets (fixed income and global equities), and Colorado PERA is the book of record for our private market investments.

26. Are all your alternative investments supported by underlying audited financial statements?

- If so, are all the statements prepared under US GAAP?

Response:

According to PERA staff, Yes, our private market investments are supported by audited financial statements. While most statements are prepared under US GAAP, we do have a limited number of investments with statements prepared under various global/international accounting standards.

27. Are any of the hard to value investments audited financial statements prepared in a basis of accounting other than US GAAP?

Response:

According to PERA staff, please see the response to question 26. We have a limited number of investments with statements prepared under various global/international accounting standards.

In 2024, underlying audited financial statements for six out of 81 real estate investments, 10 out of 73 alternative investments, and 9 out of 140 private equity investments were prepared under accounting standards other than US GAAP.

28. Have there been any significant, 'hard to value' investments such as investments in private equity, limited partnerships, real estate, natural resources, derivatives and similar been 'written down' or 'written off' in the past 3 years?

Response:

According to PERA staff, when these investments reach the end of their lives and the partnerships dissolve or is sold in a secondary market sale, it is routine to write off balances. Within the past three years, the amounts written off have not significantly impacted our reported financial figures.

In 2024, we wrote off $146,523 of real estate investments against a total year-end valuation of $6,172,439,000. We wrote off $16,264,985 of private equity investments against a total year-end valuation of $5,119,455,000. We did not write off any Alternative investments.

29. Does management use third party specialists to assist with determining fair value for harder to value segments of their portfolio? If so, who and how frequently is the valuation performed?

Response:

According to PERA staff, outside of a limited number of partnerships that only provide capital account statements semiannually, we receive quarterly capital account statements for our non-public market investments in real estate, private equity, and alternatives.

30. Are there any issues with obtaining valuation information in a timely manner for the assets measured at NAV?

    Response:

    According to PERA staff, we have a limited number of partnerships that provide capital account statements on a 180-day delay. At year-end, we obtain estimates for the NAV of these investments and any other private market investments that have not provided a capital account statement.

    For the 2024 year-end, we did not receive capital account statements by 4/15 and booked on estimates, six alternative investments, one real estate investment, and 28 private equity investments.

31. With respect to the investments in alternative investments, real estate and private equity for those that are audited annually, what processes or controls are in place to validate the reported values as used by PERA relative to the audited financial statements? Please address the procedures and/or controls for both those investments that have the same year-end with the PERA's December 31 year-end and those that use a different year-end.

    Response:

    According to PERA staff, PERA Accounting books quarterly reporting for our private asset classes per capital account statements and information provided by our general partners and their accounting agents. At year-end, we hold our books open until April 15th (or so depending on how the calendar falls each year). If we have not received statements by the year-end deadline, we ask our partners or their accounting agents to provide us with an estimated NAV/capital account statement. If that cannot be provided, we reach out to our investment teams for an internal NAV valuation.

    PERA's general partners provide quarterly valuation information via custom capital account statements and/or standardized ILPA templates. PERA Accounting does not reconcile the capital account statements provided to the partnerships' audited financial statements for PERA's ownership share of the fund. However, PERA Accounting does track audit opinions and opinion dates, accounting basis, and audit firms for partnerships' year-end financial statements whether the partnership has a 12/31 year-end or something else.

32. Are there changes in investment policies or allocations anticipated in the next year?

    Response:

    According to PERA staff, the Board finalized an asset/liability study in 2024. The objective of the study was to determine the optimal strategic asset allocation that will allow PERA to meet its financial obligations, while also ensuring the PERA incurs appropriate levels of risk and liquidity. As a result of this study, the Board slightly modified the asset allocation ranges and targets effective January 1, 2025.

33. What controls are in place to monitor and record calls and distributions for real estate and private equity investments? (internal or outside consultants?)

Response:

According to PERA staff, PERA has internal controls around the movement of money related to private market investments. Money for these investments primarily moves into and out of two accounts at our custodian bank. These accounts are reconciled monthly. Support for calls and distributions (partnership notices, cash flow reports from the custodian, and record of authorized signatures for the money movements) is reviewed prior to preparing journal entries for our general ledger. We utilize a third-party vendor for data input into our subsidiary ledgers (Access databases). This data entry is reviewed prior to posting to our general ledger. For entries that require manual adjustments, we employ maker/checker controls. All support is archived in our PERADocs document retention and retrieval system.

34. What reconciliation procedures are performed between the different investment managers and custodian and how often?

Response:

According to PERA staff, for externally managed public markets, PERA Accounting performs a monthly reconciliation of positions. Internally managed public markets are reconciled for positions and transactions daily by our Investment Operations team.

35. Are there going to be any significant changes to the system that would significantly change its investment vehicles or benefits provided? If so, what are they?

Response:

According to PERA staff, no.

36. How long does PERA keep their books open for any true up of fair value of the alternative investments?

Response:

According to PERA staff, we hold our books open until around April 15.

37. Are you able to provide weighting for each of the individual evaluation criterion listed on page 17 of the RFP?

Response:

Each proposal is reviewed and scored according to the following general criteria with 100 maximum possible points:

	Evaluation Criteria	Maximum Points Assigned
1	Adequacy and completeness of the proposal with regard to Section II of the RFP.	10
2	Experience and stability of the organization.	10
3	Qualifications and experience of staff, including subcontractors, specialists, and consultants to be assigned to the audit.	20
4	Comprehensiveness and appropriateness of the proposed audit work plan.	15
5	Proposed hours and cost.	20
6	Proposed time frame for meeting project milestones and completing the audit.	10
7	Willingness to execute/accept the OSA's standard contract and its related exhibits without significant revision and negotiation.	15

38. The RFP states the solicitation is for a single year award, but page 8 refers to the testing method for subsequent years. Could you please confirm whether this solicitation and our response are meant to cover multiple years?

Response:

On pages 11 and 12 of the RFP, it states "The contract will be awarded to the bidder whose proposal the OSA determines to be the most advantageous to the State of Colorado, price and other factors considered. The successful bidder will be awarded a one-year contract which may be renewed on an annual basis for up to four additional years subject to acceptable performance and costs."

39. Aside from the 4-5 required in-person meetings, what are the expectations for performing the engagement work on site vs. on a remote basis?

Response:

Please see the responses to questions 3 through 5. According to PERA staff, hybrid fieldwork is acceptable. A walk through related to a check process might be best done in person, but many walk throughs and meetings are done virtually.

40. Is the current auditor allowed to bid on the RFP?

Response:

The current audit firm has performed the PERA audit for 10 years. Therefore, as noted in the RFP in Section I, Part L., the current audit firm is not eligible to propose on this audit.

41. If PERA could change one thing about the audit process what would that be?

Response:

According to PERA staff, we prefer confirmations are sent on time and actively monitored, to avoid a last-minute rush to obtain them.

PERA would prefer that the auditor's opinion for all reports and the letters to those charged with governance be final before the presentation to the PERA Audit Committee in June.

42. If PERA changed to new auditors, what transition issues would be a concern?

Response:

According to PERA staff, time and effort to help the new auditors understand our organization and processes.

43. What are the key qualities that PERA is expecting from their auditors?

Response:

- According to PERA staff, we prefer auditors familiar with pension systems and practical applicability of GASB standards.
- We prefer a comprehensive Prepared by Client (PBC) list in advance.
- We appreciate regular open and clear communication.
- We prefer reasonable and thoughtful findings focused on significant issues.
- We appreciate a willingness to share best practices from other clients, especially pension plans.

44. What generally about your audit experience would you like to maintain and what would you like to improve upon?

Response:

All OSA expectations of auditors are outlined in the RFP. The OSA values communication between the contractor and the OSA contract monitor throughout the audit process and the contractor completing the audit in accordance with all due dates established in the timeline. It is important that the auditors use the PERA staff's time efficiently and to communicate openly and provide weekly status meetings throughout interim and final fieldwork.

According to PERA staff, we appreciate deadlines for deliverables communicated well in advance and effective communication channels.

45. What state and local government affiliates under the AICPA independence rules has PERA identified as requiring independence?

Response:

According to PERA staff, PERA has not identified any state or local government affiliates using the following criteria:

i. The entity is included in PERA's financial statements and the Independent Auditor does not make reference to another auditor's report on the entity.

ii. The entity is included in PERA's financial statements and the Independent Auditor makes reference to another auditor's report on the entity, **and** the entity is material to PERA's financial statements as a whole and PERA has more than minimal influence over the entity's accounting or financial reporting process.

iii. The entity is required to be included in PERA's financial statements but is not, AND the entity is material to PERA's financial statements, AND PERA has more than minimal influence over the entity's accounting or financial reporting process.

iv. The entity is an investee of PERA or PERA's affiliate, and PERA or PERA's affiliate either

(a.) controls the investee (unless the investment is trivial and clearly inconsequential to PERA's financial statements as a whole) OR

(b.) has significant influence over the investee and the investment is material to PERA's financial statements as a whole.

An additional consideration would be PERA's investments. PERA does not have a controlling interest in any global equity investments, and none of our private asset investments are material to PERA. (PERA's largest alternative investment is $268 million. PERA's largest private equity investment is $194 million. PERA's largest real estate investment is $750 million.) PERA combined investment pool's value as of 12/31/2024 was $66.7 billion.

PERA does have more than minimal influence over a few of our private asset (private equity, real estate, and alternatives) investments. However, since these investments are not material to PERA's financial statements, they are not affiliates of PERA.

For public relation purposes, PERA is reviewing our investment holdings for CPA firms and has not found any holdings related to the CPA firms inquiring about the RFP.