REPORT OF

THE

STATE AUDITOR

Colorado County Officials and Employees Retirement Association

Performance Audit
May 2004

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May 17, 2004

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Colorado County Officials and Employees Retirement Association (CCOERA). The audit was conducted pursuant to Section 24-54-114, C.R.S., which requires the State Auditor to conduct an audit of "any retirement plan or system of retirement benefits established and maintained by any county in conjunction with any other county pursuant to the provisions of this article [54 of Title 24]." The report presents our findings, conclusions, and recommendations, and the responses of the Colorado County Officials and Employees Retirement Association Board.

Joanne Hill

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STATE OF COLORADO
OFFICE OF THE STATE AUDITOR **REPORT SUMMARY**

JOANNE HILL, CPA
State Auditor

Colorado County Officials and Employees Retirement Association (CCOERA) Performance Audit, May 2004

Authority, Purpose, and Scope

This performance audit was conducted pursuant to Section 24-54-114, C.R.S., which requires the State Auditor to conduct an audit of "any retirement plan or system of retirement benefits established and maintained by any county in conjunction with any other county pursuant to the provisions of this article [54 of Title 24]. Such audit shall review the financial transactions and accounts of the plan or system, investigate the qualified status of the plan or system with the internal revenue service, and determine whether the plan or system otherwise complies with the provisions of this article." The audit work, performed from September 2003 through May 2004, was conducted in accordance with generally accepted government auditing standards.

The Office of the State Auditor retained Mellon Human Resources & Investor Solutions to review CCOERA's investment program including evaluating the performance of CCOERA's fund offerings, determining compliance with Internal Revenue Service (IRS) requirements, and assisting in the evaluation of the Board's oversight of the plans. Office of the State Auditor staff reviewed CCOERA's administrative policies and procedures, expenses, the Board structure, and general compliance with statutes.

We encountered difficulties relating to the examination of financial transactions due to the condition of CCOERA's records. In addition, we disagreed with CCOERA management concerning whether records of participants' account activity (e.g., contributions and withdrawals) were available to the Office of the State Auditor for audit purposes. CCOERA management was concerned that these were personnel records under the Colorado Open Records law and therefore should not be released. However, under Section 2-3-107(2), C.R.S., the Office of the State Auditor has access to "all of the books, accounts, reports (confidential or otherwise), vouchers, or other records or information in any department, institution, or agency." CCOERA filed an application with Denver District Court for a decision on the issue and the Legislative Audit Committee issued a subpoena in accordance with its powers under Section 2-3-107, C.R.S. The Court ruled in favor of the Office of the State Auditor and directed that ". . . CCOERA must provide access to the Auditor." Subsequently, CCOERA provided all requested records to the Office of the State Auditor.

There were changes in CCOERA's upper management and Board membership during the audit. Specifically, an acting Executive Director was in place from the inception of the audit in September 2003 through January 2004, at which time a new Executive Director was hired. In addition, one Board position was vacant until February 2004. CCOERA's current management and Board have committed to making improvements in internal controls through the establishment of new policies and procedures as noted in the responses to the recommendations relating to these issues.

For further information on this report, contact the Office of the State Auditor at 303.869.2800.

Overview

The Colorado County Officials and Employees Retirement Association (CCOERA) provides defined contribution retirement plans to counties, special districts, municipalities, and other entities in Colorado. CCOERA offers both a 401(a) retirement plan and a 457 deferred compensation plan. In accordance with Sections 24-54-107 and 108, C.R.S., the plans are administered by a governing board composed of five members.

CCOERA's plans are funded by contributions from participating employers and employees. The contributions are deposited into individual employee accounts and employees direct where the money in their accounts is invested from a menu of investment funds. Fees are deducted from the participants' accounts to fund the daily administrative operations of the Association. According to data provided by CCOERA, there were about 200 employers and about 16,700 participants in the 401(a) and 457 plans as of June 30, 2003. According to the audited financial statements, CCOERA's plans had net assets of about $510 million as of June 30, 2003.

Summary of Audit Comments

Investment Review

CCOERA offers 14 investment funds to its participants, including mutual funds and an internally-managed stable value fund referred to as the Book Value fund. Mellon and the Office of the State Auditor reviewed the structure and performance of CCOERA's investment offerings and found the following:

- **In Mellon's experience, CCOERA's Book Value fund has higher risk than a typical stable value fund.** CCOERA's internally managed Book Value fund is not structured to provide the same level of security to maintain principal and generate earnings as other stable value funds. About 35 percent of CCOERA's Book Value fund is invested in mortgages, which do not lend themselves to meeting a stable value fund's investment objective of protecting principal. We noted concerns with these investments and with how CCOERA represents the risks of the Book Value fund to participants. For example, in quarterly newsletters to participants, CCOERA reports the Book Value fund as having the lowest risk of all the funds offered by CCOERA, including money market funds, despite the investments in mortgages.

- **CCOERA lacks an adequate benchmark and independent review of the Book Value fund.** There is no readily available benchmark appropriate to the Book Value fund. Because over 40 percent of the fund is composed of mortgages and CDs, neither a Guaranteed Investment Contract (GIC) index (currently used by CCOERA as a benchmark) nor a stable value index provides an adequate benchmark. Using either benchmark to report fund performance may be misleading to participants. In addition, there is no independent monitoring of the Book Value fund. Unlike the mutual funds available to participants, whose performance is monitored and reported by an independent investment consulting firm, the Book Value fund has historically been managed and monitored internally by CCOERA. Without any type of outside review of the fund, the Governing Board and CCOERA participants have limited assurance that the fund performance data is accurate. Mellon found one instance in which the investments in the Book Value fund violated provisions of the Investment Policy Statement. Specifically, the percentage of assets held by a single insurance company as of June 30, 2003 was almost 18 percent of the total assets in the Book Value fund although the stated maximum is 15 percent. An independent review of the fund on a regular basis helps identify such violations.

- **CCOERA's 401(a) plan is not portable due to limited liquidity of the Book Value fund and policies that prohibit the transfer of funds out of the plan.** The average maturity level of the Book Value fund, which exceeds 4 years, is significantly longer than most pooled stable value funds, which have an average duration of about 2 to 2¼ years. The long maturity of the Book Value fund creates a liquidity risk; CCOERA would have difficulty meeting unusually high demands to withdraw monies from the fund. Furthermore, CCOERA does not allow funds in the 401(a) plan to be transferred to another plan if an employer terminates participation with CCOERA.

- **CCOERA's internal record keeping creates higher risks for the Association.** CCOERA staff carry out a variety of record keeping functions such as allocating contributions to the investment funds selected by each employee and calculating the quarterly administrative fee assessed on each account. By performing all record keeping functions internally, CCOERA is increasing its risk and liability for any errors. In 2002 CCOERA experienced a record keeping system error relating to its pension portfolios. These portfolios (often referred to as lifestyle portfolios) provide pre-set investment mixes designed by a professional investment advisor using combinations of CCOERA's existing fund lineup. CCOERA staff realign the portfolios to the designated asset allocation guidelines on a quarterly basis. In October 2002 some account balances were incorrectly invested in options outside the portfolios. CCOERA subsequently established new controls over the portfolios and, as of September 2003, had corrected the affected accounts at a cost of $71,000. Because CCOERA performs record keeping functions internally, including the realigning these funds, it is responsible for any errors, no matter what the cost. Many plan sponsors contract with external providers to perform these types of functions and to assume the responsibility for the accuracy and timeliness of transactions.

- **CCOERA's administrative fees are higher than those of other plans.** We compared the estimated fees a CCOERA participant would expect to pay as of June 30, 2003 with the fees a participant in the State's 457 plan and PERA's 401(k) plan would expect to pay. We calculated a weighted average investment management fee, based on the plans' overall asset allocations, to serve as a proxy for what an average plan participant might expect to pay in annual fees. We also determined the average amount of annual administrative fees charged by the plans over a five year period. We then estimated the total annual fees an average participant in each plan would pay (including investment management and administrative fees), based on an average account balance of $10,000, $25,000, $60,000, and $100,000. We found the total charges a CCOERA participant would expect to pay as of June 30, 2003 were about 8 to 40 percent higher than those a State 457 plan or PERA 401(k) plan participant might pay at each account level. CCOERA's administrative fee of 0.35 percent of assets is higher than the administrative fees charged by the other plans.

CCOERA Administration

We reviewed CCOERA administrative policies, procedures, and expenses and found:

- **Some of CCOERA's credit card expenses appear unreasonable and unnecessary and there is a lack of documentation for the expenses.** We reviewed transactions charged to CCOERA's business credit card for Fiscal Years 2002, 2003, and the first seven months of Fiscal Year 2004. For the two complete fiscal years we reviewed, credit card charges averaged $178,000 annually. We found very little documentation indicating the business purpose of credit card transactions and therefore could not verify that all charges represented legitimate business expenses or were properly categorized in the general ledger. For the period we reviewed, CCOERA lacked itemized credit card receipts with written descriptions of the business purpose of the transaction for about 95 percent of the transactions. Many of the charges appear excessive and inappropriate including lodging charges totaling more than $52,000, restaurant charges totaling more than $37,000, and airfare charges totaling more than $13,000 for Fiscal Year 2003 alone. Ultimately, participating employees and employers pay for these charges.

- **Some of CCOERA's travel expenses appear excessive and in violation of the Board's travel policy.** We reviewed documentation relating to CCOERA's travel and conference expenses, as well as the policies and practices followed by CCOERA staff and Board members and identified a number of concerns. First, we found routine monthly payments of $300 categorized as travel reimbursements to an individual who did not appear to be employed by, or under contract with, the Association, between July 2000 and June 2002, totaling $5,400. CCOERA has no documentation showing the legitimate business purpose of these expenses. Second, we found three instances totaling about $900 in which CCOERA paid for out-of-state airfare for spouses of CCOERA staff or Board members to travel to conferences. This practice violates CCOERA's travel expense policy. Third, during Fiscal Years 2002 and 2003, CCOERA leased five different high-end vehicles for staff use (two in 2002 and three in 2003) at a total cost of about $49,000 for the two year period. As of the end of April 2004, all vehicles had been sold or returned to the dealer. Fourth, CCOERA's mileage reimbursement rate of 51.7 cents per mile is considerably higher than the Standard

Mileage Rate established by the IRS (currently 37.5 cents per mile) and the State's mileage rates (32 cents per mile for SUVs and 28 cents per mile for other vehicles). We estimate CCOERA could have saved between $3,300 and $4,400 in Fiscal Year 2003 had it used any of these lower rates.

- **Statutes regarding entities allowed to participate in CCOERA are unclear.** We reviewed the list of CCOERA's employer members as of June 30, 2003 and found 25 entities that do not appear to meet the statutory definitions of entities authorized to participate in CCOERA. However, the intent of the statutes is unclear. In particular, the statutes do not specify whether all special districts; other entities under the purview of a city, county, or special district; any non-profit organizations; and police officers and firefighters not in the Fire and Police Pension Association (FPPA), may join CCOERA.

Plan Oversight

We reviewed the plans' qualified status with the IRS and the oversight of the plans by the Governing Board. We found:

- **The 401(a) and 457 plans may not always reflect current federal requirements.** Mellon found that the most recent favorable IRS determination letter for the 401(a) plan was issued in 1978 and the most recent ruling on the 457 plan was issued in 1993. Because the requirements of the Internal Revenue Code are complex and changes in federal law are frequent, maintaining current letters and rulings helps ensure that the IRS agrees that the plans reflect the applicable requirements of the Code. Mellon found some federal law changes were not incorporated into the 401(a) plan within required time periods, which creates a risk that the IRS may impose monetary penalties on the plan. CCOERA submitted the 401(a) plan to the IRS for review in September 2003.

- **The Board should strengthen its oversight of the plans.** Throughout the report, we noted various concerns relating to adequate oversight of the plans. These included questions about the appropriateness and reasonableness of some administrative expenses; concerns about the structure, risk, and liquidity of the Book Value fund, which represents about half the assets in CCOERA's plans; and inadequate oversight of the investments in the Book Value fund. These issues, which are explained in detail throughout the report, indicate that the plans may not be managed prudently and diligently, in a manner that avoids conflicts of interest, and solely in the interest of plan participants.

Our recommendations and the Governing Board's responses can be found in the Recommendation Locator on pages 7 and 8 of this report.

RECOMMENDATION LOCATOR
Recommendations Addressed to the Colorado County Officials and Employees Retirement Association Board

Rec. No.	Page No.	Recommendation Summary	Board Response	Implementation Date
1	22	Consider adding a deep value large cap fund and an aggressive growth large cap fund to provide additional investment diversity to participants.	Disagree	--
2	27	Modify the benchmarks for measuring fund performance by using style-specific indices.	Agree	Implemented
3	34	Develop and implement a plan to eliminate the Book Value fund and transition to an external stable value mutual fund or takes steps to strengthen the Book Value fund.	Partially Agree	Fiscal Year 2004-2005
4	39	Explore the impact and IRS-qualification effect of allowing employers to withdraw their funds. Based on this effort, modify policies regarding employer withdrawals. Alternatively, propose statutory changes to align statutes and policies.	Partially Agree	Fiscal Year 2004-2005
5	44	Improve trust accounting by expanding policies that specify how errors in record keeping will be corrected or hire an external record keeper under a contract that clearly outlines the firm's responsibility for correcting errors.	Partially Agree	Fiscal Year 2004-2005
6	47	Evaluate administrative charges to plan participants. Based on changes occurring as a result of Recommendation Nos. 11 and 5, reduce fees accordingly. In addition, consider eliminating extra charges for account distributions.	Partially Agree	Ongoing
7	48	Improve the Investment Policy Statement by clarifying the methodology for allocating assets in the Book Value fund, establishing a periodic review of the allocation, and documenting approval for any changes to the Statement in Board minutes.	Agree	Fiscal Year 2004-2005

RECOMMENDATION LOCATOR
Recommendations Addressed to the Colorado County Officials and Employees Retirement Association Board

Rec. No.	Page No.	Recommendation Summary	Board Response	Implementation Date
8	56	Implement controls over credit card usage, including processes for review, approval, and documentation of credit card expenditures and tracking and obtaining timely reimbursement if personal use of credit cards is permitted.	Agree	Ongoing
9	59	Implement controls to limit travel expenses to only those that are reasonable and necessary.	Agree	Ongoing
10	61	Establish and implement written policies regarding the approval and modification of staff bonuses that stipulate whether Board approval is required for changes in compensation for any individual employee prior to the change occurring.	Agree	Fiscal Year 2004-2005
11	63	Establish or strengthen policies and internal controls over administrative expenditures with a goal of reducing overall expenses and consider significantly reducing or eliminating the compensation provided to board members.	Partially Agree	Ongoing
12	66	Work with the General Assembly to clarify statutes regarding what entities are permitted to participate in the plans and establish and document a process for ensuring that potential new member employers are statutorily eligible participants.	Agree	2005 Legislative Session
13	71	Establish processes to ensure that the 401(a) and 457 plans remain in compliance with federal laws.	Agree	Fiscal Year 2004-2005
14	75	Adopt and follow detailed fiduciary standards, policies, and procedures consistent with applicable provisions of the Colorado Uniform Prudent Investor Act.	Partially Agree	Fiscal Year 2004-2005
15	77	Expand representation and available expertise to the Governing Board.	Partially Agree	Fiscal Year 2004-2005

Overview of the Colorado County Officials and Employees Retirement Association

The Colorado County Officials and Employees Retirement Association (CCOERA) was formed in 1968 to provide a defined contribution retirement plan to 12 original participating counties: Boulder, Eagle, Elbert, Garfield, Grand, Jackson, Las Animas, Otero, San Juan, San Miguel, Summit, and Teller. The statutes governing CCOERA were amended in 1969 to include special districts and again in 1973 to include municipalities. Over the years, many other counties, special districts, and municipalities have joined CCOERA. Currently, almost 200 employers in Colorado participate in the Association.

CCOERA maintains two defined contribution retirement plans: a 401(a) plan intended to be qualified under Section 401(a) of the Internal Revenue Code, and a deferred compensation plan pursuant to Section 457 of the Internal Revenue Code. Defined contribution plans define the level of contribution made to the plan, not the benefit or retirement income level. Under CCOERA's plans, employee and employer contributions are deposited into individual employee accounts and employees direct where the money in their accounts is invested from a menu of investment funds. At retirement, the employees receive the value of their accounts. The value of each employee's account is not known until retirement and the amount is not guaranteed. The distribution at retirement can be in the form of a lump sum, installment payments over a fixed number of years, a monthly annuity payable for life, or a direct rollover to an Individual Retirement Account (IRA).

In accordance with Sections 24-54-107(4), C.R.S., the plans are administered by a Governing Board composed of five members, as follows:

- One member is the treasurer of the participating county with the largest population. Currently, this position is filled by the Jefferson County Treasurer.

- Two members are non-elected employees of the participating employers who have been elected by other participating employees. By Board rule, one is an employee of an "East Slope" entity, and one is an employee of a "West Slope" entity. Currently, one of these positions is filled by an employee of Jefferson County, the other by an employee of Mesa County.

- Two members are registered voters of a participating county chosen by the board of County Commissioners. Currently, one of these positions is filled by an individual from Cheyenne County, the other by an individual from Crowley County.

According to statute, the Board is to establish staggered four-year terms for its members. The CCOERA Board is responsible for establishing the terms and conditions of the plans and their operation, interpreting plan provisions, selecting investment managers, hiring professionals and service providers, and amending the plans.

CCOERA uses an "unbundled" approach to administer the plans, which means that the administrative and investment management functions are divided among several individuals and entities. Specifically, CCOERA's staff carry out the day-to-day administration of the plans; outside fund sponsors manage the 13 mutual funds currently offered to plan participants; and CCOERA's Executive Director has historically managed the Association's Book Value fund. The 1st Bank of Cherry Creek provides custodial services on CCOERA's bank accounts.

The Governing Board acts as the trustee for the plans, retaining the fiduciary responsibility for the operation of the plans. CCOERA staff carry out record keeping, communication, participant education, budgeting, and accounting functions. The record-keeping of individual employee account values is performed internally on a system CCOERA purchased from Sungard, a systems development company. The CCOERA web site (www.ccoera.org) allows participants to view their account balances on-line and offers an on-line investment advice service.

Funding

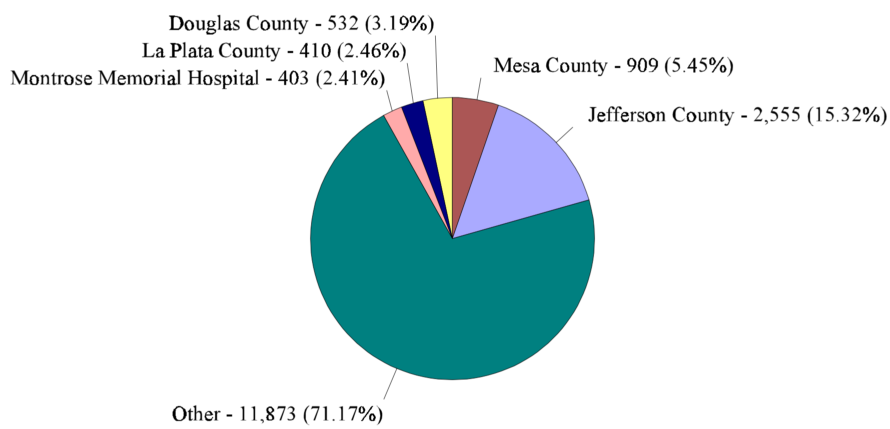
The 401(a) and 457 plans maintained by CCOERA are funded by contributions from participating employers and employees. In accordance with Section 24-54-104(1), C.R.S., the 401(a) plan requires participating employees to contribute a percentage of their salaries toward the plan, not to exceed 6 percent of their basic salaries, and not less than the rate of contribution made by their employers. During the 2004 legislative session, Senate Bill 18 was enacted, raising the maximum contribution for employees to 8 percent. According to the bill, this change will take effect on August 4, 2004, unless a referendum petition against the bill, or the part of the bill that increases the contribution, is filed prior to that date. If a petition is filed, the change would take effect after a vote on the petitioned part of the bill by the people of Colorado. For the 457 plan, contributions are voluntarily made by employees. For both plans, individual accounts are maintained for each employee and are credited with contributions and investment gains or losses.

CCOERA operations are funded primarily through fees charged to participating employees and fee rebates from some mutual funds. Fees are charged to members as a percentage of the plans' assets. According to the Association's financial statements, for the plan year ending June 30, 2003, CCOERA's administrative expenses totaled about $2.4 million, or about 0.47 percent of the plans' net assets at that date. CCOERA's administrative expenses and fees are discussed in greater detail in Chapters 1 and 2.

Member and Asset Information

According to data provided by CCOERA, there were about 16,700 employees and about 200 employers in the 401(a) and 457 plans as of June 30, 2003. The chart below shows the distribution of participants among CCOERA's five largest employer members, and all other members.

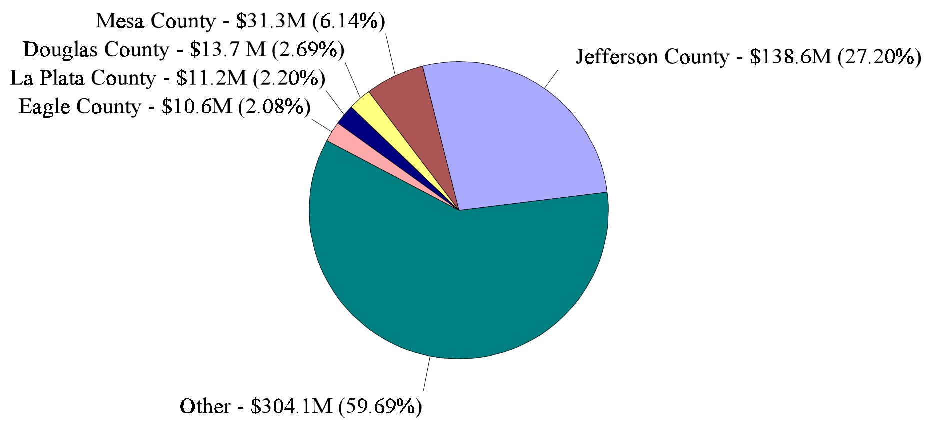
Distribution of CCOERA Participants by Employer
Top Five Employers As of June 30, 2003



Source: Office of the State Auditor analysis of membership data provided by CCOERA.

According to the June 30, 2003 financial statements, CCOERA's plans had total net assets of about $510 million (about $441 million in the 401(a) plan and about $69 million in the 457 plan). The chart below shows the distribution of net assets among CCOERA's five largest employer members, and all other members.

Distribution of CCOERA Assets by Employer ($ millions)
Top Five Employers As of June 30, 2003



Source: Office of the State Auditor analysis of data provided by CCOERA.

As the pie charts show, Jefferson County is the largest employer participating in CCOERA with more than 2,500 active and inactive participants and more than $138 million in assets in the plans as of June 30, 2003.

A detailed listing of participant numbers and asset amounts is included in Appendix A.

Plan Provisions

401(a) Retirement Savings Plan

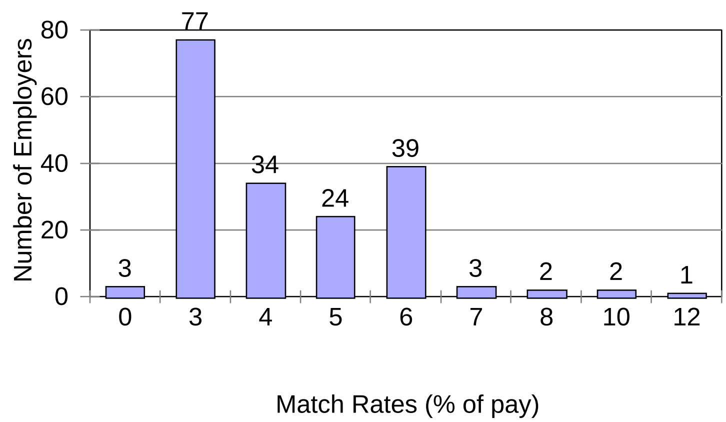
The 401(a) plan provisions are generally similar for all participating employers. Each employer executes an adoption agreement with CCOERA which specifies that employer's requirements relating to employee eligibility, employee and employer contribution rates, vesting of employer contributions, and the compensation base on which contribution amounts are calculated. A summary of the major provisions of the agreements are as follows:

- *Eligibility*–In accordance with the adoption agreement, an employer can cover (a) every officer and employee employed on a full-time basis, (b) every officer and employee employed on a full- or part-time basis, excluding seasonal employees, or (c) all officers and employees of the employer. A waiting period of 6 or 12 months of service may be required to become covered under the plan.

- *Employee contributions*–By statute, participating employees are required to contribute a percentage of their salaries to the plan. Specifically, Section 24-54-104(1), C.R.S., states: "Except as otherwise provided in this section, any plan or system adopted pursuant to the provisions of this article shall require participants to contribute a percentage of their salaries toward the cost thereof, such rate of contribution to be not less than that made by the county, municipality, district, or other participating entity, and . . . not more than six percent of said employee's basic salary or wage." The plan document requires all employees to contribute at least 3 percent of their compensation to the plan to be eligible for pre-tax treatment of their contributions and allows employees to voluntarily make after-tax contributions up to 10 percent of their compensation. Section 415(c) of the Internal Revenue Code caps contributions at $41,000 for 2004.

- *Employer contributions*–In accordance with the adoption agreement, the employer can contribute 3 to 6 percent of the employee's compensation, or at some other rate in limited circumstances as permitted by statute. Specifically, employers such as home rule cities may elect another rate up to the limit prescribed by federal law. This limit, known as the annual additions limit under IRC 415(c), is the lesser of (i) 100 percent of compensation or (ii) $41,000 (increased for cost-of-living after 2004), and includes employer contributions, employee contributions, and forfeitures. The following chart shows the distribution of matching contribution rates for all employers participating in CCOERA.

Employer Matching Contribution Rates

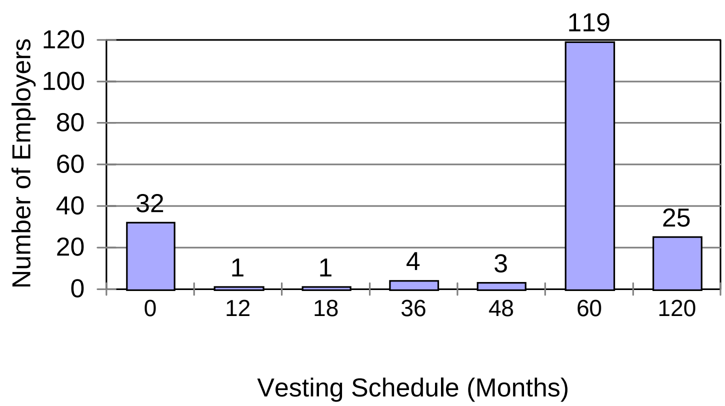


Source: Office of the State Auditor analysis of data provided by CCOERA.
Note: The chart reflects the 185 employers actively participating in the 401(a) plan as of June 30, 2003.

- *Normal retirement age*–Age 62. The normal retirement age defines the eligibility for receiving retirement benefits. Upon reaching normal retirement age, participants are fully vested in their employer account balance. Employees have a right to receive the vested value of their accounts prior to the defined normal retirement age, but the distribution could be taxable if not rolled over and monetary penalties may be incurred.

- *Vesting*–100 percent immediately of employee account balances. Vesting of the employer account balances is determined in accordance with the employer's adoption agreement. The employer may elect 100 percent immediate vesting, graded vesting, or 100 percent vesting after completing up to ten years of service. A distribution of the vesting schedules adopted by participating employers is shown below.

Vesting Schedule for Employer Contributions



Source: Office of the State Auditor analysis of data provided by CCOERA.
Note: The chart reflects the 185 employers actively participating in the 401(a) plan as of June 30, 2003.

- *Forfeitures*–The non-vested portion of the employer account balance at the participant's date of termination. Forfeitures are credited back to participating employers and are used by the employer to reduce its future contributions.

- *Forms of distribution*–Lump sums, direct rollovers, periodic payments over a fixed period, level installment payments, and lifetime annuity options are available under the plan.

- *In-service withdrawals*–No distributions while actively employed are allowed by the plan.

- *Employer withdrawal*–The plan document permits employer withdrawal from the plan at any time, upon written notice to the Association. However, the document also states: "It is the expectation of the participating employer that it will continue this plan indefinitely, but the . . . participating employer reserves the right to discontinue this plan at any time. The discontinuance of this plan by the participating employer shall in no event have the effect of reverting any part of the trust fund in the participating employer."

- *Rollovers/Transfers*–The plan allows rollovers and transfers into or out of the plan to other eligible retirement plans or an IRA.

- *Loans*–No provision.

- *Investment elections*–Employees direct their contributions and the employer matching contribution into any of the investment funds made available by the Governing Board.

457 Deferred Compensation Plan

Employees may elect to participate in this plan on a voluntary basis. A summary of the major provisions are as follows:

- *Eligibility*–Any full- or part-time employee of a participating employer may participate. There is no waiting period.

- *Employee contributions*–In accordance with IRC Sections 415(e)(15) and (e)(18), participating employees may elect to defer from federal tax up to $13,000 of compensation into the plan in 2004. This deferral limit is scheduled to increase $1,000 per year to 2006 when it reaches $15,000 under federal law. Catch-up contributions may be made by employees age 50 or older of $3,000 in 2004, increasing $1,000 per year to a maximum of $5,000 in 2006.

- *Employer contributions*–No provision.

- *Normal retirement age*–Age 70½ or other earlier age specified in writing by the participant. The normal retirement age defines the eligibility for receiving retirement benefits. Employees have a right to receive the value of their accounts prior to the defined normal retirement age after separating from service or at a later date, if elected.

- *Vesting*–100 percent immediately vested in the account balance.

- *Forms of distribution*–Lump sums, direct rollovers, periodic payments over a fixed period, level installment payments, and lifetime annuity options are available under the plan.

- *In-service withdrawals*–No distributions while actively employed are allowed by the plan.

- *Rollovers/Transfers*–The plan allows rollovers and transfers into or out of the plan to other eligible plans.

- *Loans*–No provision.

- *Investment elections*–Employees direct their contributions into any of the investment funds made available by the Governing Board.

Investment Review

Chapter 1

Background

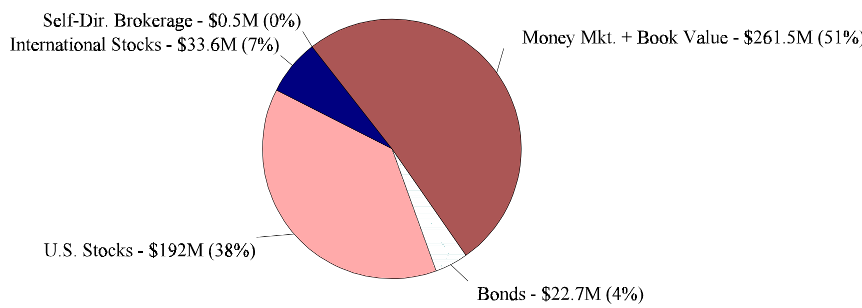
Defined contribution retirement plans, such as CCOERA's 401(a) and 457 plans, define the level of contribution made to the plan, not the retirement income level. The benefit paid by a defined contribution plan is contingent on the amount of contributions made and the investment income accumulated in an individual employee's account over the course of the employee's career. The employee directs where the money in his or her account is invested from a menu of investment funds. The following table and chart show CCOERA's investment options and the amount in each fund as of June 30, 2003.

CCOERA 401(a) and 457 Plans
Allocation of Assets[1] as of June 30, 2003

Fund	Amount	% of Total
Cash & Money Market	$3,438,696	0.7%
Fidelity Retirement Money Market	$1,847,227	0.4%
CCOERA Book Value[2]	$256,199,414	50.1%
Subtotal Money Market & Book Value Funds	**$261,485,337**	**51.2%**
PIMCo Total Return Admin	$22,714,187	4.5%
Subtotal Bond Funds	**$22,714,187**	**4.5%**
Davis NY Venture A	$29,502,369	5.8%
PIMCo StocksPlus Admin	$44,734,469	8.7%
Domini Social Equity Index	$4,075,964	0.8%
Fidelity Magellan	$25,539,883	5.0%
Fidelity Contra	$37,420,913	7.3%
C&B Mid Cap Value	$5,005,438	1.0%
Artisan Mid Cap	$6,995,518	1.4%
Fidelity Low-Priced Stock	$24,415,460	4.8%
ABN AMRO/Veredus Aggressive Growth N	$14,354,511	2.8%
Subtotal U.S. Stock Funds	**$192,044,525**	**37.6%**
American AAdvantage Int'l. Equity Institutional	$20,931,102	4.1%
Janus Overseas	$12,656,573	2.5%
Subtotal International Stock Funds	**$33,587,675**	**6.6%**
Self-Directed Brokerage Accounts	**$549,049**	**0.1%**
Total All Funds[2]	**$510,380,773**	**100.0%**

Source: Mellon analysis of data provided by CCOERA.
[1] Excludes $1,522,647 of accounts receivable. Assets are for the 401(a) and 457 plans only; assets of the Association's administrative fund are not included.
[2] The Book Value fund includes $69,225,997 in commercial first mortgages offset by a $1,386,594 reserve allowance.

Allocation of Assets as of June 30, 2003



Source: Office of the State Auditor analysis of data in CCOERA's June 30, 2003 financial statements.

In a defined contribution plan, the investment risks and rewards lie with the employees. The ability of an individual to do well on investments in the plan depends on a number of factors, including: (a) the availability of a quality slate of investment options to choose from, (b) the willingness of the individual to learn about the investment choices offered, and (c) the willingness of the individual to take some risk.

These factors were considered in evaluating CCOERA's investment program which included reviews of:

- The number and types of investment options offered and assessing whether there are gaps or redundancies in the fund slate.
- The performance of the funds offered over the last 1-, 3-, 5-, and 10-year periods.
- How CCOERA monitors fund and manager performance.
- The fees charged to participants by fund managers and by CCOERA.
- The contents of the Investment Policy Statement.

As a result of this evaluation, a number of areas for improvement in CCOERA's investment program were identified, as discussed in this chapter.

Number and Types of Investments Offered

Mellon found that CCOERA offers a wide range of investment funds ranging from less risky fixed income investments to more risky equities, both domestic and foreign, as well as a combination of large, mid, and small cap funds with growth, value, and blend styles.

The following table shows the current investment options offered by CCOERA.

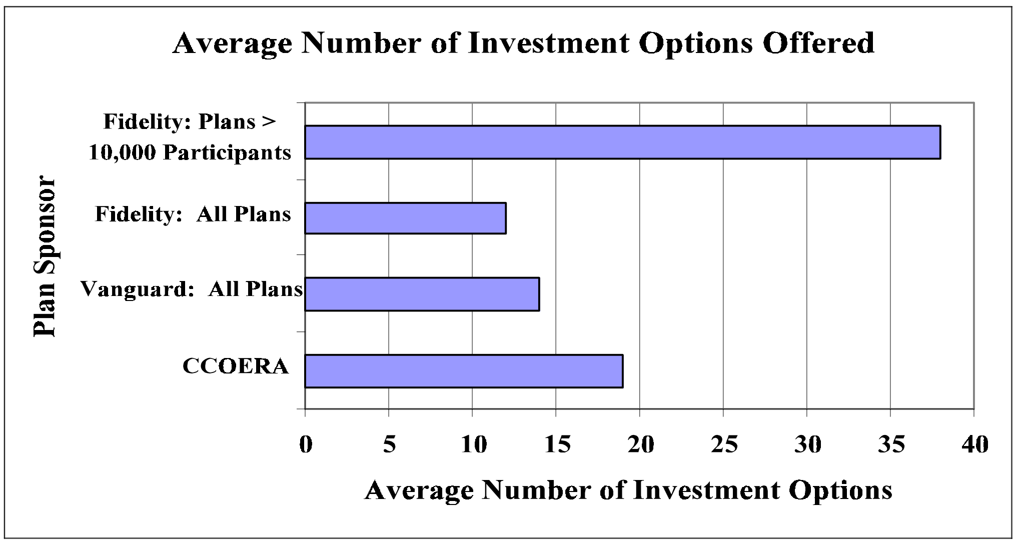
CCOERA's Investment Options
As of June 30, 2003

Investment Category	Fund Options
International Equity	American Aadvantage International Equity Institut. fund Janus Overseas fund[1]
Domestic Equity[2]	
Large Cap Growth	Fidelity Contra fund
Mid Cap Growth	Artisan Mid Cap Growth fund
Small Cap Growth	ABN AMRO Veredus Aggressive Growth N fund
Large Cap Blend	PIMCO Stocks Plus Admin fund Domini Social Equity Index fund Fidelity Magellan fund
Large Cap Value	Davis New York Venture A fund
Mid Cap Value	Cooke & Bieler Mid Cap Value fund
Small Cap Value	Fidelity Low Priced Stock fund
Fixed Income/Bond	PIMCO Total Return Admin fund
Money Market	Fidelity Retirement Money Market portfolio
Stable Value	CCOERA Book Value fund
Pension (Lifestyle) Portfolios	• 0-5 yrs to retirement • 5-10 yrs to retirement • 10-15 yrs to retirement • 15-20 yrs to retirement • Over 20 yrs to retirement

Source: Mellon analysis of data provided by CCOERA.
[1] Janus Overseas fund was replaced by Julius Baer International Equity fund in August 2003.
[2] As shown in the table, equity funds are categorized into large, mid, and small cap, as well as value, growth, or blend styles. Large cap stocks have market capitalizations (number of shares outstanding x price of stock) of over $8.6 billion; mid cap stocks have market capitalizations between $1.5 billion and $8.6 billion; and small cap stocks have market capitalizations of less than $1.5 billion. Value funds, in general, seek stocks that are undervalued while growth funds, which tend to be riskier, seek stocks with high future growth potential. Blend funds seek stocks that have characteristics between value and growth.

Mellon also compared the number of investment options offered to CCOERA's plan participants with other funds. As shown above, CCOERA offers 14 funds and 5 balanced portfolios (which allocate assets to the 14 funds in the plans). The number and diversity of funds offered allows participants with varying investment preferences, risk tolerances, and time horizons to build diversified portfolios tailored to their individual needs. A "typical" defined contribution plan offers between 12 and 14 investment options.

The following chart compares the number of investment options offered by CCOERA to plans offered through Fidelity and Vanguard.



Source: Mellon analysis of data provided by CCOERA, Fidelity, and Vanguard.

Based on the comparative information, Mellon believes CCOERA offers a reasonable number of investment alternatives to provide participants with ample choice without overwhelming them. In addition, many of the plans' investment options have name recognition with participants which may help to increase participation rates and participants' comfort level with the fund selection process.

Analysis of Investment Options

As part of its review, Mellon evaluated whether CCOERA had gaps or redundancies in its slate of investment offerings. To assist in this effort, Mellon determined how the funds offered by CCOERA are categorized by Morningstar, an independent mutual fund rating agency. Morningstar categorizes equity funds based on their 3-year average portfolio statistics, including ten different style factors, such as their price/earnings ratios (the weighted average of the price/earnings ratios of the stocks in the fund's portfolio), price/book ratios (the weighted average of the price/book ratios of all the stocks in the fund's portfolio), and median market capitalization (which provides a measure of the size of the companies in which the fund invests). Since Morningstar's approach is purely quantitative, Mellon also examined the current and historical fund holdings, read manager and external commentary on the funds' holdings and strategies, and considered CCOERA's investment strategy, in evaluating the current classifications of CCOERA's fund offerings. Mellon identified the following gaps in CCOERA's slate of equity options:

- **Large Cap Value.** CCOERA hired Davis NY Venture A to fill a large cap value equity mandate, but based on the Morningstar information and Mellon's analysis, this fund is closer to a large cap blend fund.

- **Large Cap Growth.** CCOERA hired Fidelity Contrafund to fill a large cap growth equity mandate. Historically, this fund has toggled between the large blend and large growth categories, but its 3-year statistics currently place it in the large cap blend category.

- **Small Cap Blend.** Fidelity Low-Priced Stock is classified by Morningstar as small cap blend. However, it was hired to fill a small cap value mandate and its price/earnings ratio, price/book ratio, and earnings growth rate are lower than average, so Mellon believes it should continue to be classified as a small cap value fund. Therefore, there is a gap in the small cap blend category.

- **Mid Cap Blend**. CCOERA does not currently offer a fund in the mid cap blend category.

The CCOERA Governing Board uses an independent investment consultant, Innovest Portfolio Solutions, LLC, to monitor fund performance as well as to conduct fund searches as needed and assist in updating the Investment Policy Statement. Innovest provides the Board with written performance reviews on CCOERA's funds each quarter. The quarterly reports include a "report card" intended to reflect measures of fund performance relative to benchmarks and a universe of similarly managed funds. Innovest uses information from Callan, Associates, along with analysis of investment philosophy, to classify funds. Innovest representatives reported that they believe the funds currently offered by CCOERA are consistent with their original mandates.

The gaps identified by Mellon are relevant in that they indicate that the plans may not provide participants with maximum diversification benefits. For the mid and small cap blend categories, Mellon does not believe it is imperative to fill these mandates because the plan offers value and growth options in both categories. However, CCOERA should consider adding a "deep value" large cap fund and an "aggressive growth" large cap fund to allow participants to better diversify their large cap equity exposure.

Recommendation No. 1:

The CCOERA Board should consider adding a deep value large cap fund and an aggressive growth large cap fund to provide additional investment diversity to participants.

CCOERA Board Response:

Disagree. CCOERA's approach to determining a manager's style is based on a manager's approach to investing, returns based analysis and securities based analysis. Davis NY Venture Fund is a relative value manager, focusing on finding "fallen growth stocks" and was chosen because of the complementary approach to Fidelity Magellan, CCOERA's large cap growth option (which has a relative growth style). The combination of managers has performed very well over time. CCOERA uses Fidelity Contra as a general equity manager, not a large cap growth manager. Fidelity Contra is eclectic in style and their style will vary based on the opportunities they see in the market. Adding a deep value manager and an aggressive large cap growth fund will confuse participants, and the diversification benefit is minimal. CCOERA's investment consultant monitors the fund offerings on an ongoing basis and recommends changes in the lineup to the Board as they are identified. For participants that have a more aggressive posture, we believe that there are excellent choices in the small and mid cap area.

Analysis of Mutual Fund Performance

Mellon reviewed the performance of the equity and bond funds offered by CCOERA and compared the volatility of CCOERA's funds with benchmarks and peer groups, where that information was available. Volatility is measured in terms of standard deviations; the higher the standard deviation of a fund, the more volatile the fund's returns. Investments involving higher risk are generally expected to produce higher returns over time. The indices and peer groups selected by Mellon and shown in the following table provide two different benchmarks for performance evaluation purposes. An index is a "passive" benchmark which includes a mix of securities that represent a specific part of the market. For example, the Russell 2000 Value Index includes all small cap value stocks. There is no professional money manager deciding which securities to buy and sell. A peer group includes all of the mutual funds that are managed in a similar manner. For example, the Morningstar Small Cap Value peer group includes all of the funds that focus primarily on small cap value stocks. Most of the mutual funds in the peer group are "actively-managed", which means there is a professional money manager deciding which securities to buy and sell within the broad market.

Mellon found that most of the CCOERA funds have strong long-term performance records relative to their corresponding peer groups and indices. Over the past five years, all the funds outperformed their respective index and peer group and over the past three years, 9 of 13 funds outperformed both benchmarks. In addition, CCOERA's funds had volatility levels that were generally similar to the levels of their benchmarks.

The following table shows CCOERA's funds compared to indices and peer groups.

Investment Performance for CCOERA's Funds
As of September 30, 2003

Fund	Total Returns[1]				Std. Deviation[2]	
	1 Yr	3 Yrs	5 Yrs	10 Yrs	3 Yrs	5 Yrs
Fidelity Retirement Money Market	**1.0**	**2.6**	**3.8**	**4.4**	**-**	**-**
Index: 3 Month T-Bill	1.2	2.6	3.7	4.4	-	-
Peer Group: Mstar Money Mkt-Taxable	0.6	1.5	2.1	2.5	-	-
PIMCO Total Ret Admin	**7.1**	**9.5**	**7.0**	**7.3**	**5.0**	**4.4**
Index: LB Aggregate Bond	5.4	8.9	6.6	6.9	4.5	4.0
Peer Group: Mstar Int-Term Bond	6.2	7.9	5.6	6.0	4.7	4.2
Davis NY Venture A	**22.8**	**-5.2**	**5.7**	**10.9**	**15.7**	**17.4**
Index: Barra Large Cap Value	26.6	-6.5	2.5	9.1	17.8	18.3
Peer Group: Mstar Large Value	22.6	-3.0	2.8	8.7	16.4	17.1
PIMCO StocksPlus Admin	**26.3**	**-9.1**	**1.5**	**10.6**	**16.9**	**18.1**
Domini Social Equity	**24.8**	**-10.1**	**0.6**	**9.5**	**17.1**	**18.9**
Fidelity Magellan	**21.1**	**-11.7**	**1.7**	**8.0**	**16.6**	**19.1**
Index: Standard & Poor's 500	24.4	-10.1	1.0	10.0	16.6	18.0
Peer Group: Mstar Large Blend	21.7	-10.3	1.1	8.3	16.5	18.2
Fidelity Contrafund[3]	**16.3**	**-5.3**	**5.5**	**10.9**	**11.1**	**14.9**
Index: Barra Large Cap Growth	22.4	-14.1	-1.1	10.5	16.9	20.1
Peer Group: Mstar Large Growth	22.6	-18.3	-0.7	7.0	19.0	23.9
C&B Mid Cap Value	**30.1**	**14.5**	**17.7**	**-**	**19.5**	**20.8**
Index: Russell Midcap Value	28.3	6.6	8.4	11.4	17.1	17.1
Peer Group: Mstar Mid-Cap Value	25.7	5.3	9.2	10.6	18.5	19.1
Artisan Mid Cap	**27.5**	**-7.9**	**17.9**	**-**	**23.6**	**29.9**
Index: Russell Midcap Growth	38.9	-17.3	4.5	8.5	26.9	33.3
Peer Group: Mstar Mid-Cap Growth	27.8	-16.9	5.0	7.4	22.5	32.7
Fidelity Low-Priced Stock	**31.0**	**15.8**	**15.5**	**15.3**	**18.0**	**16.1**
Index: Russell 2000 Value	31.7	11.1	10.8	11.3	21.2	18.4
Peer Group: Mstar Small Value	30.0	10.7	12.0	11.4	21.2	19.9
ABN AMRO/Veredus AggGr N	**24.1**	**-11.7**	**18.5**	**-**	**20.2**	**35.0**
Index: Russell 2000 Growth	41.7	-12.7	2.7	4.5	27.1	33.0
Peer Group: Mstar Small Growth	34.2	-10.6	8.0	7.3	25.1	34.3
American AAdv Intl Inst	**30.9**	**-3.1**	**4.4**	**7.8**	**-**	**18.0**
Index: MSCI EAFE	26.0	-8.7	0.6	2.9	-	16.0
Peer Group: Mstar Foreign Lg Val Stock	27.4	-3.6	4.4	6.3	-	16.9
Julius Baer International Equity	**22.6**	**-3.7**	**11.9**	**-**	**13.9**	**22.3**
Index: MSCI EAFE	26.0	-8.7	0.6	2.9	16.0	17.1
Peer Group: Mstar Foreign Lg Blnd Stock	21.4	-10.8	0.4	3.7	15.7	18.4

Source: Mellon analysis of information from CCOERA and benchmark sources.
[1] Returns are shown net of fees. Periods longer than one year are annualized.
[2] Standard deviation is a measure of volatility. The higher the standard deviation, the more volatile the funds' returns. Investments involving higher risk are generally expected to produce higher returns over time.

In addition to the returns shown above, Mellon reviewed the annualized performance of the funds between 1993 and 2002 to determine the consistency of each fund's relative performance. The following table shows that CCOERA's funds have generally performed at or above their benchmarks and peer groups.

Annualized Investment Performance for CCOERA's Funds for Calendar Years 1993 through 2002

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Fidelity Retirement Money Market	**1.6**	**4.1**	**6.3**	**5.0**	**5.4**	**5.4**	**5.3**	**5.8**	**4.1**	**-**
Index: 3 Month T-Bill	1.7	3.7	6.3	4.9	5.0	5.3	5.3	5.8	4.5	3.1
Peer Group: Mstar Money Mkt-Taxable	1.0	2.3	3.6	2.8	3.0	3.2	3.0	3.4	2.4	2.0
PIMCO Total Ret Admin	**9.9**	**9.2**	**11.8**	**-0.5**	**9.5**	**9.9**	**4.5**	**19.4**	**-**	**-**
Index: LB Aggregate Bond	10.3	8.4	11.6	-0.8	8.7	9.7	3.6	18.5	-2.9	9.8
Peer Group: Mstar Int-Term Bond	7.9	7.5	9.7	-1.3	7.5	8.9	3.3	17.5	-3.9	10.4
Davis NY Venture A	**-17.2**	**-11.4**	**9.9**	**17.6**	**14.7**	**33.7**	**26.5**	**40.6**	**-1.9**	**16.1**
Index: Barra Large Cap Value	-20.9	-11.7	6.1	12.7	14.7	30.0	22.0	37.0	-0.6	18.6
Peer Group: Mstar Large Value	-18.8	-4.3	9.0	5.3	11.6	27.3	20.3	32.6	-0.7	13.5
PIMCO StocksPlus Admin	**-20.1**	**-12.0**	**-8.5**	**19.6**	**27.8**	**-**	**-**	**-**	**-**	**-**
Domini Social Equity	**-20.7**	**-12.8**	**-15.1**	**22.6**	**33.0**	**36.0**	**21.8**	**35.2**	**-0.4**	**6.5**
Fidelity Magellan	**-23.7**	**-11.7**	**-9.3**	**24.1**	**33.6**	**26.6**	**11.7**	**36.8**	**-1.8**	**24.7**
Index: Standard & Poor's 500	-22.1	-11.9	-9.1	21.0	28.6	33.4	23.0	37.5	1.3	10.1
Peer Group: Mstar Large Blend	-22.3	-12.4	-5.0	20.5	22.3	27.9	21.3	32.8	-0.6	11.6
Fidelity Contrafund	**-9.6**	**-12.6**	**-6.8**	**25.0**	**31.6**	**23.0**	**21.9**	**36.3**	**-1.1**	**21.4**
Index: Barra Large Cap Growth	-23.6	-12.7	-22.1	28.3	42.2	36.5	24.0	38.1	3.1	1.7
Peer Group: Mstar Large Growth	-27.8	-22.1	-13.8	39.4	33.3	26.5	19.5	32.4	-1.8	11.2
C&B Mid Cap Value	**-9.5**	**25.2**	**41.0**	**-0.2**	**-**	**-**	**-**	**-**	**-**	**-**
Index: Russell Midcap Value	-9.7	2.3	19.2	-0.1	5.1	34.4	20.3	34.9	-2.1	15.6
Peer Group: Mstar Mid-Cap Value	-12.7	8.1	18.9	6.7	3.5	26.8	19.3	28.7	-0.9	18.3
Artisan Mid Cap	**-24.2**	**-3.0**	**27.2**	**57.9**	**33.4**	**-**	**-**	**-**	**-**	**-**
Index: Russell Midcap Growth	-27.4	-20.2	-11.8	51.3	17.9	22.5	17.5	34.0	-2.2	11.2
Peer Group: Mstar Mid-Cap Growth	-27.5	-20.5	-4.7	61.4	17.4	19.1	17.3	34.1	-1.1	15.4
Fidelity Low-Priced Stk	**-6.2**	**26.7**	**18.8**	**5.1**	**0.5**	**26.7**	**26.9**	**24.9**	**4.8**	**20.2**
Index: Russell 2000 Value	-11.4	14.0	22.8	-1.5	-6.4	31.7	21.4	25.8	-1.6	23.8
Peer Group: Mstar Small Value	-9.8	17.1	18.4	4.1	-6.9	30.1	23.2	23.8	-0.2	16.5
ABN AMRO/Veredus AggGr N	**-43.9**	**-13.2**	**30.2**	**112.6**	**-**	**-**	**-**	**-**	**-**	**-**
Index: Russell 2000 Growth	-30.3	-9.2	-22.4	43.1	1.2	13.0	11.3	31.0	-2.4	13.4
Peer Group: Mstar Small Growth	-27.9	-8.6	-4.1	59.4	5.3	19.0	20.1	34.1	-0.5	16.8
American AAdv Intl Inst	**-14.1**	**-15.4**	**-4.1**	**26.9**	**11.7**	**9.6**	**19.8**	**17.7**	**1.2**	**42.8**
Index: MSCI EAFE	-15.9	-21.4	-14.2	27.0	20.0	1.8	6.1	11.2	7.8	32.6
Peer Group: Mstar Foreign Lg Value Stock[1]	-11.9	-15.5	-15.0	45.0	13.4	5.8	13.2	10.0	-0.3	36.9
Julius Baer International Equity A	**-3.6**	**-18.9**	**-8.0**	**76.6**	**27.1**	**15.3**	**17.7**	**-0.2**	**-33.6**	**-**
Index: MSCI EAFE	-15.9	-21.4	-14.2	27.0	20.0	1.8	6.1	11.2	7.8	32.6
Peer Group: Mstar Foreign Lg Blend Stock[1]	-16.9	-21.8	-15.0	45.0	13.4	5.8	13.2	10.0	-0.3	36.9

Source: Mellon analysis of data from CCOERA and Morningstar.

[1] Returns for 1993-2000 are for the Mstar Foreign Stock Category. Prior to 2000, Morningstar did not break out the Foreign Stock Category by equity style.

In its analysis of fund performance, Mellon used indices that reflect the mandates for which each fund was hired. For example, Mellon used a mid cap growth index for the mid cap growth fund (Artisan Mid Cap) and a large cap value index for the large cap value fund (Davis NY Venture A). However, Mellon found that the indices specified by CCOERA in its Investment Policy Statement are broad-market (or style-neutral) indices. As a result, all large cap funds are compared to a single large cap index (the S&P 500); all mid cap funds are compared to a single mid cap index (the S&P 400); and all small cap funds are compared to a single small cap index (the Russell 2000). The following table shows the indices used by CCOERA and lists style-specific indices recommended by Mellon for each investment category.

Recommended Indices for Equity Funds

Fund Type	Index used by CCOERA	Index Recommended by Mellon
Large cap core	S&P500	S&P500
Large cap value	S&P500	S&P/BARRA Large Value or Russell 1000 Value
Large cap growth	S&P500	S&P/BARRA Lg Growth or Russell 1000 Growth
Mid cap value	S&P400	Russell Midcap Value
Mid cap growth	S&P400	Russell Midcap Growth
Small cap value	Russell 2000	Russell 2000 Value
Small cap growth	Russell 2000	Russell 2000 Growth

Source: Mellon analysis of information provided by CCOERA.

In the performance reports prepared by Innovest, some style-specific comparisons are provided; the style-neutral indices are mixed with style-specific peer groups. For example, the reports compare the performance of Fidelity Low-Priced Stock (a small cap value fund) against the S&P 600 (a style-neutral small cap index) and the Callan Small Cap Value Manager universe (a small cap value peer group). However, using style-specific indices, which account for the individual styles of each manager, will provide the Board, plan members, and others with a better gauge of fund performance.

Recommendation No. 2:

The CCOERA Board should modify its benchmarks for measuring fund performance by using style-specific indices.

CCOERA Board Response:

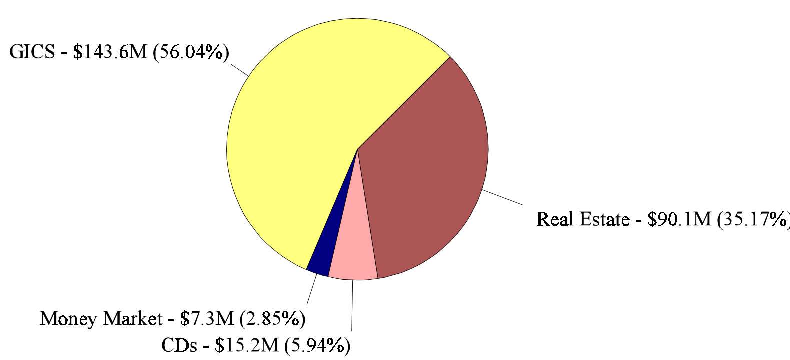
Agree. Implementation date: Implemented. Effective 12/31/03, style specific indices are now utilized in performance reports and are reflected in the Investment Policy Statement. The Board has always relied upon the expertise of its outside Investment Advisor to recommend benchmarks to be used in performance reports.

The Book Value Fund

One of the investment options offered to CCOERA plan participants is a Book Value fund that is internally managed by the Association. As of June 30, 2003, about half the assets in CCOERA's 401(a) and 457 plans were invested in the Book Value fund. The fund is composed of GICs (guaranteed investment contracts–agreements between an insurance company and a pension plan that guarantee a specific rate of return over the time span of the agreement), commercial first mortgages, certificates of deposit, and money market funds.

The following chart shows the allocation of the over $256 million in the fund as of June 30, 2003.

Allocation of Assets in the Book Value Fund as of June 30, 2003



Source: Office of the State Auditor analysis of data from CCOERA's June 30, 2003 financial statements.
Note: Real estate assets consist of a mortgage fund of $22.3 million and commercial first mortgages of $69.2 million, net a reserve of $1.4 million.

The Book Value fund was the only investment fund available to CCOERA participants until 1991, at which time the Board began offering additional investment options.

We reviewed the structure of the fund, the maturity of its holdings, and the Association's oversight of the fund's assets. We identified a number of concerns with the liquidity and risk of the fund and the evaluation of fund performance.

Overall, these issues indicate that significant changes are needed to eliminate the risks and limitations of the Book Value fund and to provide plan participants with assurance that fund returns are accurately analyzed and reported, as discussed in the remainder of this chapter.

Book Value Fund Risk

CCOERA's Book Value fund is described by CCOERA as a type of stable value fund. Stable value investments are generally fixed-income vehicles whose assets include high quality bonds and interest-bearing contracts purchased from banks, insurance companies, or mutual funds. The goal of these contracts is to maintain the value of the invested principal and all accumulated interest.

Hueler Companies is an independent research firm that provides data to the stable value marketplace. Hueler developed a universe of stable value funds that currently comprises 25 funds with assets totaling over $66 billion. According to the Hueler Analytics Pooled Fund Comparative Universe of Stable Value, which represents 80 percent of the pooled fund market, a typical stable value fund has about 5 percent of its assets in short-term investments (cash or cash equivalents), about 10 to 15 percent in traditional GICS (guaranteed investment contracts), and about 80 to 85 percent of its assets in investment-grade bonds with "wrappers." A wrapper is a guarantee by the bank or insurance company to make up the difference, if any, between the book value (principal plus accrued interest) and the market value of the assets in the wrapper when participants wish to withdraw funds. The wrapper provides additional assurance that the value of the assets will be maintained.

CCOERA's Book Value fund does not include a wrapper and has a higher inherent risk than a typical stable value fund because of the significant amount invested in mortgages. Mortgages can lose value as a result of the following risks:

- Interest rate risk–since a mortgage is a debt instrument, its value will decline when interest rates rise, and vice versa.

- Prepayment risk–the borrower has the right to pay off all or a part of the mortgage at any time, thereby changing the expected interest payment stream.

- Credit risk–this is the risk of loss due to a default on mortgage payments.

- Liquidity risk–this is the loss in the event the property must be sold quickly.

Because mortgages do not provide guaranteed, positive returns, they do not lend themselves to meeting a stable value fund's investment objective of protecting principal. Therefore, stable value funds typically do not invest in mortgages.

Further, in reviewing the mortgages in the Book Value fund we found that CCOERA had established an agreement with one of its employer members that allows the member to participate in any CCOERA mortgage at the member's discretion. This agreement, which was signed in November 2001, appears to be a related party arrangement that provides no financial benefit to CCOERA. According to CCOERA, the employer member did choose to participate in one of CCOERA's commercial mortgage loans. The loan was split, with CCOERA funding about $1.3 million and the employer member funding about $600,000 of the total amount. This related party agreement was not disclosed in CCOERA's financial statements for the years ended June 30, 2002 or 2003 and violates the Board's ethics policy which requires Board members and employees to avoid any activities that may be viewed as conflicts of interest. We found no indication that the Board had taken any action to address this policy violation.

In addition, CCOERA does not appear to be accurately reflecting the risks of its Book Value fund when reporting fund data to participants. CCOERA provides participants with a quarterly newsletter which reports investment performance results and standard deviations (indicating relative volatility or risk) for each investment option. We reviewed the newsletters for Calendar Years 2001 through 2003 and found that, despite the inclusion of mortgages, each newsletter reported the Book Value fund as having the lowest risk of all the funds offered by CCOERA, including its money market fund.

A thorough analysis of the mortgages within the Book Value fund was not within the scope of this audit and CCOERA management indicated that the mortgage portfolio has not been formally evaluated for its risk. Given the inherent risk of mortgage loans and the existence of a related-party agreement, we believe CCOERA should undertake an independent analysis of the mortgages to determine the actual risks of the portfolio. These risks should be communicated to the Board and accurately reflected in information provided to participants.

Monitoring Book Value Fund Performance

Another concern related to the Book Value fund is that there is no readily available benchmark appropriate to the fund. The following table shows reported returns, ending June 30, 2003, for CCOERA's Book Value fund.

Investment Performance for CCOERA's Book Value Fund As of June 30, 2003					
	Total Returns[1]				
	6 Mos	1 Year	3 Years	5 Years	10 Years
CCOERA Book Value Fund	2.9%	5.9%	6.4%	6.8%	7.2%

Source: Data provided by CCOERA.
[1] Returns are shown gross of fees. Periods longer than 1 year are annualized.

CCOERA has selected the Ryan Labs GIC Index as its benchmark for the fund. However, because over 40 percent of the Book Value fund is composed of mortgages and CDs (certificates of deposit), a GIC index is not an appropriate benchmark. In addition, since most stable value funds do not invest in mortgages, a stable value index would not provide an adequate benchmark. In particular, the mortgages tend to have higher returns and risk than GICs (guaranteed investment contracts), and longer maturities. CCOERA's Investment Policy Statement notes that "First mortgages generally provide between 1 and 1.25 percent better return than GICs. The investment objective of this portion of the Book Value fund is to provide a superior rate of return through investment in commercial first mortgage loans . . ." Therefore, with about 35 percent of assets in mortgages, neither a GIC index nor a typical stable value index provides a good measure of the Book Value fund's performance and using such benchmarks may be misleading to participants.

In addition to the lack of appropriate benchmarks, Mellon found there is no independent monitoring of the Book Value fund. Unlike the mutual funds, whose performance is monitored and reported by Innovest Portfolio Solutions, LLC, an independent investment consulting firm, the Book Value fund has historically been managed and monitored internally by CCOERA. Lack of strict monitoring and oversight by the fiduciaries could result in the Association investing in poor-performing, high-risk, and/or high-cost vehicles, leading to the potential for legal challenges and associated costs. For example, if investment returns suffer or other problems arise, such as operational defects affecting the plans' qualification under the Internal Revenue Code, CCOERA could be subject to legal action from members or penalties assessed by the Internal Revenue Service. IRS rulings on the plans are discussed in Chapter 3. In addition, without any type of outside review of the fund, the Governing Board and CCOERA members have limited assurance that the fund performance data is accurate.

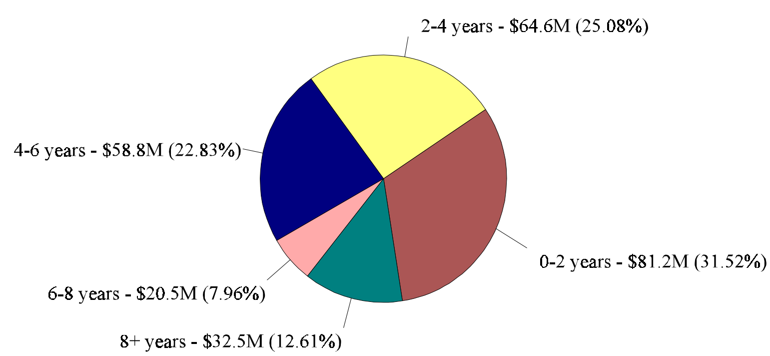
Another reason the lack of independent review is problematic is that Mellon found one instance in which the investments in the Book Value fund violated provisions of the Investment Policy Statement. Specifically, the percentage of assets held by a single insurance company as of June 30, 2003 was almost 18 percent of the total Book Value fund, although the stated maximum is 15 percent. An independent review of the fund on a regular basis helps identify such violations and ensures that accurate information on fund performance is reported to the Board and CCOERA participants.

Book Value Fund Liquidity

Mellon found that the average maturity level of the Book Value fund, which exceeds 4 years, is significantly longer than most pooled stable value funds, which have an average duration of about 2 to 2¼ years. In fact, about two-thirds of the investments in CCOERA's Book Value fund mature in more than 2 years and about 20 percent will not mature for more than 6 years. The GICs and mortgages in the Book Value fund, which represent 88 percent of the total fund, contribute to the longer maturity than normal for this type of investment option.

A distribution of the maturity level of the fund as of June 30, 2003 is shown in the following chart:

Time of Maturity for Assets in CCOERA's Book Value Fund
As of June 30, 2003



Source: Office of the State Auditor analysis of data provided by CCOERA.

The long maturity of the Book Value fund creates a liquidity risk; CCOERA would have difficulty meeting unusually high demands to withdraw monies from the Book Value fund, which could occur if:

- A large number of participants, or participants with large balances, in the Book Value fund request transfers to other funds; or,

- A large participating employer or group of employers were allowed to withdraw from CCOERA and transfer assets to a successor plan.

For example, the chart above shows that $81.2 million of the Book Value fund matures within 2 years (of June 30, 2003). Therefore, if participants with combined Book Value account balances exceeding $81.2 million requested to transfer or receive distributions of their accounts immediately, CCOERA would have to sell some of its mortgages or GICs, or deny or delay some of the transfers or distributions.

CCOERA's Investment Policy Statement appears to acknowledge the limited liquidity of the Book Value fund by establishing a liquidity policy. The policy limits transfers and distributions out of the fund through the following provisions:

- If sufficient cash is not available to pay all transfers and distributions, requests will be honored on a "first-in, first-out" basis and no future investments will be made until all requests for transfers or distributions have been paid.

- Distribution requests have a higher priority than transfer requests.

- Distributions are paid on a first-come, first-served basis, with installment distributions being paid first, followed by those due to separation from service, and then by those due to Qualified Domestic Relations Orders.

- Participants are allowed to make no more than four transfers out of the fund (excluding distributions) in any 12-month period.

- Transfer requests will be honored (on a first-come, first-served basis) only after distributions have been paid.

- The last order of priority will be to pay any other redemption or liquidation request.

Application of the policy is uncertain because key terms and phrases such as "transfers" and "first-in, first-out" are not defined.

We believe the investment risks, the lack of liquidity, and the need for improved monitoring of the Book Value fund create unnecessary risks that may not be clearly communicated to plan participants. To reduce investment risk, better meet the fund's objective of maintaining principal, and improve liquidity, CCOERA should consider eliminating the internally-managed Book Value fund. In place of the Book Value fund, the Board should consider offering a daily-valued stable value mutual fund or collective trust managed by an outside vendor. With the help of its investment consultant, the Board should develop a transition plan to find an appropriate replacement for the Book Value fund. Until such a transition is complete, or if CCOERA chooses to maintain its internally managed Book Value fund, the Association should have an independent analysis conducted of the mortgages in the fund to determine the actual risks of the portfolio. In addition, CCOERA should build a custom index that, for example, includes an allocation to the Ryan Labs GIC Index and an allocation to a mortgage index to provide an accurate measure of the performance of the fund. Finally, CCOERA should provide for an independent review of the Book Value fund's performance on a regular basis. The review should include investment performance and adherence of the fund to the Board's investment policies.

Recommendation No. 3:

The CCOERA Board should either develop and implement a plan to eliminate the Book Value fund and transition to a daily-valued stable value mutual fund or collective trust, or takes steps to strengthen the Book Value fund. These steps should include:

a. Developing a custom index for evaluating the Book Value fund that reflects the both the guaranteed investment contracts and the mortgages in the fund.

b. Providing for an independent review of the fund's performance on a regular basis which includes investment performance and adherence to the Board's investment policies.

c. Contracting for an independent, in-depth analysis of the mortgages in the Book Value fund to identify the risks of the mortgage portfolio. CCOERA should communicate the results of the analysis to the Governing Board and ensure that information on how these investments affect the risk of the Book Value fund is communicated to plan participants.

CCOERA Board Response:

Partially agree.

a. Agree. Implementation date: Fiscal Year 2004-2005. CCOERA agrees a custom benchmark is needed and will develop a custom benchmark based on the overall asset allocation of the fund. Expected implementation date is Fiscal Year 2004-2005.

b. Agree. Implementation date: Fiscal Year 2004-2005. CCOERA will have an independent review of the Book Value fund which includes benchmarking of performance, performance attribution and policy adherence. Expected implementation date is Fiscal Year 2004-2005.

c. Disagree. The independent, third party manager of the mortgage pool (KeyBank) dispenses detailed reports to CCOERA on a regular basis and is responsible for the risk analysis of the individual loans which are made subject to the Investment Policy restrictions such as loan-to-value, term and size of the loan as set by the Board prior to making any loans. There has never been a loss in the portfolio. It has yet to be determined by the Board whether an external daily valued stable value mutual fund or collective trust will be a better option for plan participants. CCOERA is embarking on a structural analysis of the entire Book Value fund and is soliciting Requests For Proposals for managers of the Book Value fund. Part of this analysis involves comparing the results of the competitive bids from external daily valued stable value mutual funds or collective trusts versus the current structure. This analysis will include an appraisal of all investments and strategies utilized by the fund. Based on the outcome of the competitive bidding process a decision will be made and implementation is expected in Fiscal Year 2004-2005.

Employer and Employee Portability

Portability is an important element of retirement plans, particularly for shorter-term, younger employees who tend to change jobs and want to be able to receive benefit for the contributions and earnings in their retirement accounts. A key aspect of portability is the ability to rollover or cash-out the value of a retirement account. For systems such as CCOERA, where multiple employers voluntarily join a retirement plan to benefit their employees, the ability to transfer the assets of employees in the plan is also important. Employers who withdraw from CCOERA to provide retirement benefits to their employees through other plans may wish to transfer their employees' accounts to the new plan.

We found that CCOERA does not allow funds in the 401(a) plan to be transferred to another plan if an employer terminates participation with CCOERA. Although the 401(a) plan document allows employers to withdraw from the plan upon providing written notice to the Association, it prohibits employers from removing funds from the plan. Specifically, *Section 13.6–Contractual Obligation of Participating Employer* states:

> It is the expectation of the participating employer that it will continue this plan indefinitely, but the continuance of the plan is not assumed as a contractual obligation of the participating employer and the participating employer reserves the right to discontinue this plan at any time. The discontinuance of this plan by the participating employer shall in no event have the effect of reverting any part of the trust fund in the participating employer.

The document also prevents employers from transferring assets to other plans. *Section 13.5–Merger, Consolidation, or Transfer of Trust Assets* states, in part,

> The participating employer is prohibited from merging or consolidating the plan with any other qualified retirement plan and may not transfer the assets and liabilities of the plan to another plan without the prior written approval of the Governing Board. Notwithstanding the foregoing, no merger, consolidation, or transfer is permitted unless each participant in the plan would (if the plan terminated) receive a benefit immediately after the merger, consolidation, or transfer, which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if the plan had been terminated), as determined, in its sole discretion.

Senate Bill 03-098, enacted during the 2003 legislative session, addressed employer withdrawal and employee rollovers of funds from CCOERA. The bill added the following language to Section 24-54-106(2), C.R.S., regarding employer withdrawal from the Association:

> Any employer may withdraw from its participation in and contributions to [CCOERA] . . . . The employer may initiate withdrawal from the association by filing with the board of the association a resolution adopted by the employer pursuant to . . . this subsection . . . . Any withdrawal shall be approved by at least sixty-five percent of all active members employed by the employer who are participating in the association at the time of the election . . . . All withdrawals from the association shall comply with the requirements set forth in this section, and except as otherwise provided in this section, all withdrawals meeting such requirements shall be approved by the board of the association.

The bill also added Section 24-54-113, C.R.S., regarding rollovers of employee accounts, stating, in part:

> Notwithstanding any other provision of this article, an employee or official who has terminated contributions to a plan established pursuant to this article . . . may elect to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan in a direct rollover in accordance with section 401 (a) (31) of the federal "Internal Revenue Code of 1986", as amended.

In testimony before the House Finance Committee in March 2003, CCOERA representatives opposed the bill, stating that it would allow participants to receive distributions of their accounts prior to retirement or termination of employment, in violation of the Internal Revenue Code. In its June 30, 2003 financial statements, CCOERA reiterated that adopting changes to implement Section 24-54-113, C.R.S., would jeopardize the tax qualified status of the plans. Specifically, the notes to the financial statements contain the following statement:

> Currently, participants of terminated member employers must maintain their . . . accounts in the plans until the participants' termination date as defined in the plans. Management of the Association and legal counsel are of the opinion that . . . [Senate Bill 03-098] does not amend the plans. If the plans were to adopt the revised operating statute, then the plans' tax qualified status would be at risk.

According to CCOERA's legal counsel, the Association has not sought an opinion from the IRS to verify whether this provision would, in fact, jeopardize the plans' qualified status. The 401(a) plan document has not been amended to permit the rollovers provided for in Section 24-54-113, C.R.S.

In 2002 and 2003, Jefferson County, the largest single employer participating in CCOERA, held discussions with the CCOERA Board and staff regarding the possibility of exploring other retirement plan options for its employees. As of June 30, 2003, Jefferson County had more than $130 million in CCOERA's 401(a) plan, including about $65 million in the Book Value fund, which represents about one-quarter of all the assets in the fund. In May 2003 a Jefferson County representative testified before the General Assembly on a bill that would have allowed employers to transfer the assets of their employees from CCOERA to another retirement plan upon employer withdrawal from CCOERA if such transfers were determined to have no adverse impact on the qualified status of CCOERA's plans. CCOERA opposed the bill, stating in testimony before the House Committee on Local Government that the funds invested in GICs (guaranteed investment contracts) are not liquid, making it difficult to release them. As of June 30, 2003, about $127.7 million of the 401(a) plan was invested in GICs, representing about 29 percent of the total assets in the plan. CCOERA representatives reported to the House Committee that it would be possible to invest in GICs that allow early termination, but these vehicles offer lower interest rates, which would have a negative impact on the remaining participants. In addition, CCOERA stated that employers had a contractual relationship with the Association that could not be broken.

In August 2003, CCOERA offered a plan to Jefferson County that would have allowed county employees to request a trust-to-trust transfer from CCOERA to any new retirement plan adopted by the county. The plan would have allowed employees meeting a “Rule of 65" to transfer their funds during a specified period each year. The “Rule of 65" would allow an individual whose combined age and years of service to the county equaled 65 or more to take advantage of this transfer opportunity. The plan limited transfers to no more than 20 percent of CCOERA’s assets in any year, and noted that transfers from the Book Value fund would be handled on a first-come, first-served basis, and only after any other distribution request, as allowed in the plan document, had been honored. The plan was also contingent on CCOERA’s obtaining legal counsel to determine if it would subject the 401(a) plan to disqualification under the Internal Revenue Code. According to minutes of a CCOERA Board meeting, Jefferson County had decided not to withdraw from the Association as of the end of August 2003.

Other employers have withdrawn from CCOERA’s 401(a) plan but have not removed their funds. For example, Douglas County terminated from CCOERA in 2000 and still had over $12.5 million in the 401(a) plan and $1.1 million in the 457 plan as of June 30, 2003. Boulder County withdrew from participation in CCOERA in the 1980s but still has employees with CCOERA 401(a) account balances totaling about $5.8 million as of June 30, 2003. Boulder has recently tried to withdraw its funds but has been unsuccessful.

It is not uncommon for providers of multiple-employer plans to allow such withdrawals. For example, according to Section 24-51-313, C.R.S., certain employers assigned to the municipal division of PERA (such as political subdivisions) may terminate their affiliation with PERA upon a 65 percent vote of the participating employees of the employer. In the case of such a termination, the contributions of participating employees and the employer can be rolled over to another retirement plan except for any actuarially required reserves to maintain the soundness of the fund. In addition, volunteer fire departments and those offering local money purchase plans that are affiliated with the Fire and Police Pension Association (FPPA) may disaffiliate upon notice to the FPPA Board and the monies held for the department will be returned within 90 days. Specifically, FPPA’s rules state:

> Any municipality, fire protection district, fire authority or county improvement district [using volunteer firefighters or offering a local money purchase plan] which entered into an agreement with FPPA for the purpose of having the association administer and manage a pension plan . . . may terminate such an agreement . . . . The municipality, fire protection district, fire authority or county improvement district must file with FPPA a resolution of intent to disaffiliate no less than 60 days prior to the effective date . . . . Within 90 days [there]after . . . the association shall return to the municipality, fire protection district, fire authority or county

> improvement district all monies in the . . . pension fund together with the net earnings thereon.

Due in part to the potential liquidity issues of the Book Value fund (discussed earlier in the chapter), CCOERA representatives have expressed concerns that allowing employers to remove their funds from the 401(a) plan would have a negative impact on remaining plan participants. To improve the portability of the 401(a) plan, CCOERA should explore the impact on the Book Value fund of allowing employers to withdraw their funds and determine whether such withdrawals would affect the tax qualified status of the plans. On the basis of these determinations, CCOERA should modify its policies to provide more flexibility to employers in terminating from the plan and ensure compliance with statutes. These efforts should be undertaken in conjunction with Recommendation No. 3, above, to transition out of the internally-managed Book Value fund.

Recommendation No. 4:

The CCOERA Board should explore the impact on the Book Value fund of allowing employers to withdraw their funds. In addition, CCOERA should seek a determination from the IRS regarding the impact on its plans if employees of withdrawn employers were permitted to transfer their funds to other retirement plans. Based on these efforts, CCOERA should modify its policies to: 1) provide more flexibility to employers in terminating from the plan and 2) comply with statutory requirements. Alternatively, CCOERA should propose statutory changes to align statutes and policies.

CCOERA Board Response:

Partially agree. Implementation date: Fiscal Year 2004-2005. If CCOERA allows portability it will affect returns of the Book Value fund as, by necessity, it would require a shorter duration of the investments in the fund depending upon whether the Board approves short term liquidity to exiting entities or a structured term over x number of years. The Board has received a mixed message from existing entities regarding portability and will continue to evaluate this possible change in policy. This is related to response #3 and the transition from Book Value to stable value and the fact that the Board has not approved such a policy. The Board is developing a RFP to research the possible benefits to the participants of such a transition and intends to perform a detailed analysis of the ultimate benefits vs. the costs and potential returns to the participants. The analysis is anticipated to be completed during Fiscal Year 2004-2005.

The Board and the plan do currently comply with statutory requirements. The Board may choose to explore the possibility of statutory changes to align policy in the event that it determines changes in current Book Value policy are to the ultimate benefit of the current plan participants.

Internal Records Management

In addition to internally managing the Book Value fund, CCOERA staff also perform record keeping for member accounts. For example, CCOERA staff allocate contributions from employees and employers to the investment funds selected by each employee, calculate the quarterly administrative fee to be assessed on each account, and reallocate funds when participants change their investment options.

Many plan sponsors contract with external banks, trust companies, or other experts to perform these types of functions. When record keeping is delegated to a third-party, that party is responsible for carrying out its duties in an accurate and timely manner and for correcting any errors. The advantages of using an external trustee to carry out record keeping functions include:

- Reducing the sponsor's involvement in time-consuming administrative functions, such as the preparation and reconciliation of consolidated asset and income statements, the processing of receipts and disbursements, and the preparation and filing of tax forms.

- Minimizing the possibility that errors could occur when performing certain functions by shifting those functions to an institution that specializes in providing such services.

By performing all record keeping functions internally, CCOERA is increasing its risk and liability for any errors. For example, in 2002 CCOERA experienced record keeping system errors relating to its pension portfolios. These portfolios (often referred to as lifestyle portfolios) provide pre-set investment mixes intended to reduce investment risk as the investor gets closer to retirement. The portfolios are designed by a professional investment advisor using combinations of CCOERA's existing fund lineup, as shown in the following table.

CCOERA Pension Portfolios As of June 30, 2003			
Portfolio	**Years to Retirement**	**Risk Tolerance**	**Asset Allocation**
1	0 - 5	Very Conservative	85% Book Value fund 7% PIMCO Stocks Plus Admin 3% Fidelity Low-Priced Stock 3% Julius Baer International Equity 2% American Aadvantage International Equity
2	5 - 10	Conservative	60% Book Value fund 17% PIMCO Stocks Plus Admin 7% PIMCO Total Return 6% Fidelity Low-Priced Stock 5% Julius Baer International Equity 5% American Aadvantage International Equity
3	10 - 15	Moderate	29% PIMCO Stocks Plus Admin 22% Book Value fund 20% PIMCO Total Return 10% American Aadvantage International Equity 9% Julius Baer International Equity 5% Fidelity Low-Priced Stock 5% Veredus Aggressive Growth
4	15 - 20	Aggressive	40% PIMCO Stocks Plus Admin 20% PIMCO Total Return 13% American Aadvantage International Equity 13% Julius Baer International Equity 7% Fidelity Low-Priced Stock 7% Veredus Aggressive Growth
5	20+	Very Aggressive	43% PIMCO Stocks Plus Admin 18% American Aadvantage International Equity 17% Julius Baer International Equity 11% Fidelity Low-Priced Stock 11% Veredus Aggressive Growth
Source: CCOERA fund profiles as of June 30, 2003.			

The portfolios are realigned by CCOERA staff to the designated asset allocation guidelines on a quarterly basis. Plan participants may choose to change the current allocation of their existing retirement accounts, which would reallocate all the monies in the account at the time of the change, or they can modify the allocation of future contributions to their retirement accounts.

In October 2002 CCOERA experienced record keeping system problems with realigning the pension portfolios. According to CCOERA staff, errors occurred in the accounts of participants who were in any of the pension portfolios and who used the Association's web site to change their future asset allocations during the quarter ended September 30, 2002. Specifically, rather than realigning the existing account balances based on the pension portfolio mix and changing the allocation of future contributions, the entire existing account balances of these accounts were incorrectly allocated to the newly-selected fund mix. CCOERA identified 28 participants whose accounts were subject to the error. According to CCOERA staff, new controls were established beginning in late October 2002 which consist of:

- Manual review of all web transactions on a daily basis to ensure that any time a participant changes his or her allocation from a pension portfolio to any other allocation, the change is correctly entered into the system.

- Addition of edits to the automated system to check all accounts in the pension portfolios each quarter and produce an exception report for any incorrect accounts. These accounts are researched and resolved by CCOERA staff.

As of September 2003, nearly a year after the error occurred, CCOERA staff had completed adjustments to the accounts to correct the error for those participants who had lost money due to the error. The Association did not adjust six accounts whose balances would have decreased if they had been retroactively adjusted. The Association ultimately incurred a cost of about $71,000 to adjust accounts to reflect the balances that would have existed if not for the error.

The CCOERA Governing Board informed the Association's independent auditors of the error after the auditors had completed their fieldwork for the June 30, 2003 audit. In the fall of 2003 the independent auditors conducted additional test work to verify that the errors had been corrected and to ensure that the new controls were working. In a November 2003 report to the Governing Board, the auditors concluded that they could rely on the new controls.

There are several concerns associated with the internal record keeping for CCOERA's plans. First, CCOERA is assuming additional risk for any errors that may occur in carrying out these duties. Second, as of June 2003, CCOERA's Operating and Procedural Manual did not include policies on how such errors should be managed. Policies should address:

- How quickly errors will be resolved. Time frames should be established to ensure errors are corrected without delay.

- How errors leading to losses in participant accounts will be corrected. The policies should clarify whether all accounts will be adjusted to the balances they would have had if the error had not occurred.

- How the costs of correcting errors will be covered. The policies should stipulate whether the Board's fiduciary insurance will cover the costs or whether, as in the error discussed above, the Association's administrative revenues will be used.

In May 2004, after the conclusion of our audit fieldwork, CCOERA management provided us with a written policy regarding how errors will be corrected. We reviewed this policy which specifies how errors that affect participant account balances will be corrected and establishes a reserve account of $5,000 to correct errors in participant accounts. However, the policy does not establish time frames for actually correcting errors, clarify the source of funding for the $5,000 reserve (e.g., whether Association administrative revenues will fund the reserve), or describe how costs in excess of the reserve would be covered. In addition, we were unable to determine if this policy has been incorporated into CCOERA's formal Operating and Procedural Manual or the effective date of the policy.

By internally carrying out record keeping duties, such as realigning the pension portfolios, CCOERA maintains responsibility for the accuracy and timeliness of all such transactions and is therefore responsible for correcting any errors, whatever the cost. If the error discussed above had affected a larger number of participants, and the cost to correct it had been substantially higher, it is unclear how the cost would have been managed. Using an external bank or trust company to serve as record keeper would shift this responsibility from the Board to the third-party entity. Further, delegating record keeping to an outside administrator experienced in pension plans would help ensure compliance with all legal requirements.

It is common for plan sponsors to hire external record keepers. For example, the State's 457 plan, PERA's 401(k) plan, and the Fire and Police Pension Association all contract out for some or all of the record keeping services that CCOERA currently handles internally. The State's 457 plan also has a lifestyle portfolio option similar to CCOERA's, where portfolios are made up of the fund options offered by the plan. The State 457 plan uses an external record keeper to realign the portfolios.

Given the number of investment funds under both of CCOERA's plans, and the complexity and amount of funds flowing into and out of the trusts, CCOERA should take steps to ensure accurate, detailed, and timely trust accounting. CCOERA could either retain the record keeping function internally and expand its policies addressing how errors in record keeping will be handled or hire an external record keeper experienced in the operation of large retirement plan trusts.

Recommendation No. 5:

The CCOERA Board should improve its trust accounting by:

a. Expanding its policies for managing errors in record keeping to specify when errors will be corrected and how any correction errors in excess of the established reserve will be paid for, or

b. Hiring an external record keeper and ensuring that the record keeping contract clearly outlines the firm's responsibility for correcting errors.

CCOERA Board Response:

Partially agree. Implementation date: Fiscal Year 2004-2005. The Board has previously specified in CCOERA's Operations and Procedures Manual how errors in record keeping are to be handled.

The Board will investigate and evaluate the benefits versus the costs of utilizing an outside trustee. A complete analysis of such additional costs or savings to the Plan would have to be initiated and competitive bids would have to be solicited. Such process could take 3-5 months.

Fee Analysis

Participants in CCOERA are subject to a number of fees associated with maintaining, investing, and disbursing their accounts, as follows:

- **Investment management fees.** Each investment manager charges a fee to each employee member as a percent of the assets that individual has invested in the fund. The fees are expressed as annual expense ratios ranging from 0.05 to 1.40 percent. Some of the funds include charges for distribution and marketing costs. These charges are rebated back to CCOERA to offset administrative costs with the intent of reducing CCOERA's fees for carrying out administrative duties.

- **Plan administration fees.** CCOERA charges each employee member an annual fee of 0.35 percent of the assets in his or her account to cover administrative costs.

- **Distribution fees.** CCOERA charges employee members flat fees for distributions from their accounts, ranging from about $10 to $24 annually depending on the frequency of the distributions. In addition, there is a $17.50 fee for a rollover or full distribution of an account.

We compared the fees paid by CCOERA members with those paid by participants in the State's 457 Deferred Compensation plan and PERA's 401(k) plan. The State of Colorado's 457 plan is a voluntary plan similar to CCOERA's 457 plan in that a committee makes operational decisions and selects the investment funds offered to participants. Unlike CCOERA, the State 457 plan uses an outside vendor to perform record keeping and communication services and a small internal staff to provide administrative services. Colorado PERA's 401(k) plan is similar to CCOERA's defined contribution plans, covering state and municipal employees in Colorado through an "unbundled" plan. PERA performs some of the same administrative functions as CCOERA but uses an outside record keeper.

First, we calculated a weighted average investment management fee, based on the plans' overall asset allocations, to serve as a proxy for what an average plan participant might expect to pay in annual fees. CCOERA's weighted average fee, at 0.47 percent of the assets in the member's account, was somewhat lower than the 0.61 percent weighted average fee for the State 457 plan and the 0.56 weighted average fee for PERA's 401(k) plan.

Second, we collected information about administrative fees charged by the three plans for a five-year period (actual fees from July 1, 2000 through April 30, 2004 and estimated fees for May 1, 2004 through June 30, 2005). We calculated the average annual fees for the five year period to be: 0.35 percent of a participant's account balance for CCOERA; a $12.60 flat fee for the State 457 plan; and a flat fee ranging from $19.50 to $23.25, depending on the account balance, for PERA's 401(k) plan. CCOERA also charges a distribution fee ranging from about $10 to $24 annually depending on the frequency of the distributions as well as a $17.50 fee for a rollover or full distribution of an account. Neither the State 457 or PERA's 401(k) plan charge distribution fees.

Finally, we estimated the total annual fees an average participant in each plan would pay, based on an average account balance of $10,000, $25,000, and $60,000, and $100,000. For our analysis, we used the most current fiscal year end for each plan (June 30, 2003 for CCOERA and the State 457 plan and December 31, 2003 for PERA). The results are shown in the following table.

Comparison of Participant Charges
CCOERA, State 457, and PERA 401(k) Plans

Account Balance	Fee Type	State 457	PERA 401(k)	CCOERA
$10,000	Inv. Mgmt.*	$61.00	$56.00	$47.00
	Admin	$12.60	$19.50	$35.00
	Total	**$73.60**	**$75.50**	**$82.00**
$25,000	Inv. Mgmt.*	$152.50	$140.00	$117.50
	Admin	$ 12.60	$ 20.25	$ 87.50
	Total	**$165.10**	**$160.25**	**$205.00**
$60,000	Inv. Mgmt.*	$366.00	$336.00	$282.00
	Admin	$ 12.60	$ 21.00	$210.00
	Total	**$378.60**	**$357.00**	**$492.00**
$100,000	Inv. Mgmt.*	$610.00	$560.00	$470.00
	Admin	$ 12.60	$ 22.50	$350.00
	Total	**$622.60**	**$582.50**	**$820.00**

Source: Office of the State Auditor analysis of fee information from CCOERA, the State 457 plan, and PERA.
* Investment management fees are estimated as of June 30, 2003 for CCOERA and the State 457 plan and as December 31, 2003 for the PERA 401(k) plan.

As the table shows, while the average investment management fees paid by CCOERA participants are lower than the other two plans, the administration fees are higher, causing the total fees to be higher, regardless of the account balance.

CCOERA's administrative charges are a concern for a number of reasons:

- We question whether many of CCOERA's administrative expenses are necessary and reasonable for the administration of the plans as discussed in Chapter 2. These questionable expenses may contribute to CCOERA's relatively high administrative charges.

- The Association's administrative expenses have increased more rapidly than its revenues over the last six years, resulting in net operating losses in Fiscal Years 2002 and 2003. Therefore, although CCOERA's administrative fees are generally higher than those charged by the State 457 plan or PERA's 401(k) plan, they have not been sufficient to cover expenses in recent years.

- CCOERA is taking on added risk by performing record keeping functions internally as discussed earlier in this chapter. However, it is not clear that this internal management has resulted in lower costs to participants.

By reducing expenses that are not necessary and reasonable and considering using external providers for record keeping services, CCOERA may be able to reduce the fees paid by participants while reducing its risks.

Recommendation No. 6:

The CCOERA Board should evaluate its administrative charges to plan participants. Based on reductions in its administrative costs as a result of Recommendation No. 11, and consideration of the use of an external record keeper in accordance with Recommendation No. 5, the Board should reduce fees accordingly. In addition, the Board should consider eliminating extra charges for account distributions.

CCOERA Board Response:

Partially agree. Implementation date: Ongoing. CCOERA will continue to evaluate the administrative charges allocated to plan participants and will act accordingly. However, if CCOERA makes changes in the structure of the investment menu (institutional investment products, external stable value fund versus internally managed, etc.) the result could be higher administrative costs, not lower administrative costs. It has always been the goal of CCOERA to maximize benefits to participants, and costs are analyzed on an ongoing basis. CCOERA does believe that special distributions to participants due to divorce and/or termination should be borne to those specific participants and should not be a cost by either CCOERA or the balance of participants.

Review of The Investment Policy Statement

As mentioned above, CCOERA has a written Investment Policy Statement which was prepared with the assistance of the Board's investment consultant, Innovest Portfolio Solutions, LLC. The Statement provides guidelines which are intended to maintain a successful investment program. According to its purpose statement, the Investment Policy Statement is intended to "assist the CCOERA Board in effectively supervising, monitoring, and evaluating the investment options of CCOERA plan assets."

Mellon reviewed the Statement and identified two general areas for improvement, as follows:

- **Documenting Board Approval of the Statement.** CCOERA provided several versions of the Investment Policy Statement, including one that was undated, as well as versions dated February 2002, May 2003, and January 2004. We reviewed minutes from all public Board meetings for Calendar Years 2001, 2002, and 2003, as well as for the beginning of 2004 (through February). We found no mention in the minutes that the February 2002 or January 2004 versions of the Statement had been reviewed or approved by the Board. The minutes did reflect that changes to the Statement were approved in June 2003.

- **Clarifying asset allocation and review processes.** The Investment Policy Statement discusses guidelines for fund diversification but does not state the methodology for allocating assets in the Book Value fund (among GICs, first mortgages, and short-term investments) and does not provide for periodic review of the allocation. A statement of methodology would describe the rationale and/or philosophy for the chosen allocation of assets. Periodic review of the allocation is important to help ensure that investment objectives are being achieved.

CCOERA should ensure that the Investment Policy Statement contains specific information on it processes and rationale for allocating assets and periodically reviewing the allocation. CCOERA should also ensure that any changes to the Statement are reviewed by the Board and that Board approval of changes is documented in the minutes.

Recommendation No. 7:

The CCOERA Board should improve the Investment Policy Statement by clarifying the methodology for allocating assets in the Book Value fund, establishing a periodic review of the allocation, and documenting approval for any changes to the Statement in the minutes of the Board's meetings.

CCOERA Board Response:

Agree. Implementation date: Fiscal Year 2004-2005. The Board's goal has always been to record investment policy changes in meeting minutes. CCOERA has addressed the need for language in the Investment Policy Statement regarding the strategic asset allocation for the CCOERA Book Value fund. This has been discussed at Board meetings with the decision to postpone changes to that section of the Investment Policy Statement until CCOERA decides to retain management responsibility for the CCOERA Book Value fund internally, utilize an external investment manager, or some combination of the two. Expected implementation date is Fiscal Year 2004-2005.

CCOERA Administration

Chapter 2

Background

CCOERA is organized into a number of functional sections, including client services, accounting, and general administration. CCOERA staff carry out a variety of duties for the 401(a) and 457 plans offered to members, including:

- Management of the Book Value fund (e.g., selection of the investment instruments and monitoring of investment performance).
- Record keeping for individual member accounts.
- Rebalancing of the CCOERA Pension Portfolios (lifestyle-type portfolios).

The Association's costs for carrying out these functions have averaged about $1.8 million annually over the past six years. These functions are funded primarily through fees charged to participating employees (a fee of 0.35 percent annually assessed on each employee's account balance) and fee rebates from some mutual funds. The following table shows CCOERA's revenues and administrative expenses, along with membership information, for the past six years.

CCOERA Financial and Membership Trends
Fiscal Years[1] 1998 through 2003

	1998	1999	2000	2001	2002	2003	Change
Revenues ($ thousands)	$1,248	$1,731	$2,080	$2,153	$2,130	$2,157	**73%**
Admin Expenses ($ thousands)	$1,114	$1,472	$1,754	$1,996	$2,240	$2,408	**116%**
Assoc Profit/Loss ($ thousands)	$134	$259	$326	$157	($110)	($251)	**-287%**
Net Assets Mgd ($ thousands)	$340,832	$404,672	$451,976	$454,565	$461,655	$510,124	**50%**
Member Employers[2]	164	173	179	185	193	201	**23%**
Employee Participants[2]	12,513	13,595	14,637	15,633	16,472	17,110	**37%**

Source: Office of the State Auditor analysis of CCOERA financial statements, Fiscal Years 1998 - 2003.
[1] The Association's fiscal year runs from July 1st through June 30th.
[2] Number of member employers and participants used in this table was obtained from CCOERA's audited financial statements. For 2003, we reviewed detailed member and employer data and determined the actual numbers were 198 employer members (including withdrawn employers) and 16,682 participants (including inactive/retired participants).

As the previous table shows, CCOERA's administrative expenses more than doubled over the six year period (increasing an average of 17 percent annually), far outpacing growth in revenues, total net assets, and membership, and leading to losses in 2002 and 2003. One of the primary drivers of the increase in administrative expenses has been the addition of staff to the Association. In Fiscal Year 1998 CCOERA had 8.5 FTE; by Fiscal Year 2003 the number had grown to approximately 14 FTE.

The following table shows a breakdown of CCOERA's administrative expenses for Fiscal Year 2003.

CCOERA Administrative Expenses
Fiscal Year 2003

Expense Category	Amount
Salaries and Personnel Expenses[1]	$1,120,852
Administration and Office Expenses[2]	$667,716
Professional Services[3]	$236,584
Board Expenses[4]	$31,510
Marketing and Communication Expenses[5]	$203,319
Education and Conference Expenses[6]	$50,403
Travel Expenses[7]	$97,304
Total Administrative Expenses	**$2,407,688**

Source: CCOERA audited financial statements for Fiscal Year 2003.
[1] Includes salaries, incentives, temporary labor costs, payroll taxes, and life/health insurance costs.
[2] Includes rent, record keeping, depreciation, professional dues, and insurance.
[3] Includes consultant and investment advice fees, accounting/auditing costs, and legal fees.
[4] Includes costs for Board members to travel to meetings and the per-meeting Board fees.
[5] Includes all marketing and communications expenses.
[6] Includes costs associated with education and conferences.
[7] Includes all costs associated with staff travel.

We reviewed CCOERA's administrative expenses, as well as related policies and procedures. Overall, we found weaknesses in internal controls leading to excessive and questionable expenses by the Association and a lack of clarity with regard to the types of employer members who are allowed to participate in CCOERA. These issues are discussed in greater detail in this chapter.

Use of Credit Cards

CCOERA has a business credit card issued by a local bank. In Fiscal Year 2003, the total business credit limit was $48,500 and eight staff members held CCOERA credit cards in their names. According to CCOERA staff, when the monthly credit card statement is received, each employee holding a card reviews the statement and notes next to each of his/her charges the type of expense, such as office supplies, transportation expenses, and lodging and meals. These notations are used to summarize the expenses and record them in the general ledger.

We reviewed the Association's credit card expenses for the period July 1, 2001 through January 31, 2004 (all of Fiscal Years 2002 and 2003, and the first seven months of Fiscal Year 2004). The following table shows the total credit card charges for Fiscal Years 2002 and 2003 (the two complete years reviewed) broken down by general ledger category. As the table shows, the majority of expenses are for travel, followed by education and conferences, and office expenses.

CCOERA Credit Card Expenses
Fiscal Years 2002 and 2003

Category of Expense	2002	2003
Board Expense[1]	$14,980	$15,887
Education and Conferences[2]	$37,810	$46,838
Marketing Expense[3]	$23,045	$27,818
Office Expense[4]	$25,367	$41,328
Travel Expense[5]	$56,836	$63,262
Other Expense[6]	$741	$1,611
Total	**$158,779**	**$196,744**

Source: Office of the State Auditor analysis of CCOERA general ledgers.
[1] Includes in-state expenses such as golf outings, restaurant purchases, and airfare.
[2] Includes airfare, meals, and lodging for out-of-state conferences.
[3] Includes marketing conference expenses, such as supplies and liquor for hospitality suites.
[4] Includes office equipment and kitchen supplies.
[5] Includes fuel and auto maintenance and lodging and meals for client services representatives.
[6] Includes payroll processing fees, staff recruitment, and professional membership dues.

In examining the Association's credit card usage, we found very little documentation indicating the purpose of the transactions. As a result, we could not verify that all charges represented legitimate business expenses that were properly categorized for recording in the general ledger. For the two complete years for which we reviewed credit card charges (Fiscal Years 2002 and 2003), we found CCOERA had itemized credit card receipts with written descriptions of the business purpose of the transaction for less than 2 percent of the transactions (42 out of 2,831 transactions) and less than 1 percent of the dollar amount of credit card charges ($2,155 out of $355,523 charged).

According to meeting minutes, the Governing Board discussed concerns with credit card expenses in July 2003 and modified the Board's policy to require "each staff member using a CCOERA credit card to note on the back of the receipt who was in attendance and where the CCOERA meeting was held." According to Board members, this new policy went into effect in July 2003, but was not enforced until September 2003. We found that while documentation for credit card transactions did improve, CCOERA could still provide itemized receipts with descriptions for only about 11 percent of transactions and about 8 percent of the dollar amount of credit card charges for the first seven months of Fiscal Year 2004.

The following table shows the amount of credit card documentation maintained by CCOERA for the period we reviewed.

CCOERA Credit Card Documentation
Fiscal Years 2002 - 2004

Type of Receipt	Fiscal Year 2002				Fiscal Year 2003				Fiscal Year 2004*			
	Transactions		Amount		Transactions		Amount		Transactions		Amount	
	#	%	$	%	#	%	$	%	#	%	$	%
None	1,323	92	$149,693	94	1,138	81	$176,907	90	217	42	$26,778	51
Non-Itemized	47	3	$2,025	1	120	9	$3,329	2	99	19	$2,223	4
Itemized	54	4	$6,579	4	107	8	$14,834	7	144	28	$19,596	37
Itemized + Description	9	1	$481	<1	33	2	$1,674	1	60	11	$4,251	8
Total	1,433	100	$158,778	100	1,398	100	$196,744	100	520	100	$52,848	100

Source: Office of the State Auditor analysis of credit card transaction documentation maintained by CCOERA.
*Fiscal Year 2004 includes the first 7 months of the fiscal year (July 2003 - January 2004).

One reason the lack of supporting documentation for credit card transactions is of concern is that many of the charges appear excessive and inappropriate. For Fiscal Year 2003 alone, lodging charges totaled more than $52,000, restaurant charges totaled more than $37,000, and airfare charges totaled more than $13,000. Specific examples of Fiscal Year 2003 charges that appear excessive and/or questionable include more than $5,000 for the office holiday party for CCOERA staff and Board members (full- and part-time staff at the time totaled 16 individuals); almost $3,500 in cash withdrawals and related bank charges with no documentation as to the purpose of the withdrawals; more than $4,000 for golf; and almost $3,000 for liquor purchases.

Due to the lack of documentation on file at the Association, we requested that staff attempt to obtain itemized receipts for a sample of transactions in Fiscal Years 2002, 2003, and 2004, including 47 hotel charges in Fiscal Year 2003. CCOERA was able to obtain hotel receipts for 37 of the hotel charges. Our analysis of these bills indicated that some of the charges included in-room movies, bar tabs, room service, parking, and long distance and local phone charges. In addition, we identified at least one instance where a hotel room was paid for by CCOERA exclusively for family members of a CCOERA employee, with the charges totaling about $1,100 over four nights. We found no evidence that these charges were reimbursed to CCOERA.

Another concern with the lack of documentation is that it is difficult to determine the extent to which the cards were used for personal purchases and whether all such personal charges were reimbursed. CCOERA staff noted that some of the charges were for personal items which were later reimbursed to the Association. CCOERA's accounting section typically generates an invoice for an accounts receivable to record personal charges on the credit cards. However, these invoices are not presented to the employees and multiple reimbursements are often combined when recording the payments in the general ledger. We requested a list of all credit card charges that had been reimbursed by employees in Fiscal Year 2003. Based on the list provided, we were able to verify that about $10,000 had been reimbursed. However, given the lack of documentation noted previously, we cannot be sure that all personal use of the credit card was reimbursed. For those reimbursements we could track, we found that an average of 96 days elapsed between the charge and the reimbursement.

As part of our review, we also determined that CCOERA allowed an individual who did not appear to be employed by the Association to have and use a CCOERA credit card from Fiscal Year 2001 through 2003. This individual had worked for CCOERA until the end of Fiscal Year 2000, but continued to make purchases on the credit card totaling almost $10,000, through the end of Fiscal Year 2003. CCOERA could not provide any documentation of services provided or an employment agreement between CCOERA and this individual that showed a continuing business relationship.

There are no formal written policies or procedures regarding the use of credit cards or requiring that documentation be submitted to the Association. However, CCOERA's Operating and Procedural Manual requires the Board to review and approve expenses at each quarterly meeting, including "all travel expenses of staff and the Executive Director's expenses as approved by the Board Chair." In addition, the Board Chair "approves [the] Executive Director's travel expenses/monthly reports and reports substantial matters to fellow Board members at [the] next Board meeting." However, the Board reported that this procedure has not been followed. Overall, there appears to have been no oversight by the Board of credit card expenses.

Most of CCOERA's credit card expenses are associated with travel, meals, and entertainment. The IRS provides guidelines for substantiating these types of business expenses. According to these guidelines, records such as receipts, canceled checks, or bills, as well as written statements of the business purpose of the expense, should generally be kept as documentary evidence. In addition, for entertainment expenses, including meals with clients, a record of the individuals in attendance, the business relationship between attendees, and the nature of the business discussion or activity should be maintained.

The Board should establish, document, and enforce appropriate controls over credit card expenses. Controls could include:

- Limiting the number of staff authorized to use credit cards.
- Lowering the limit on the credit account.
- Prohibiting personal use of credit cards.
- Implementing standard forms for tracking charges and reimbursements and establishing deadlines for reimbursements if personal use of credit cards is permitted.
- Requiring staff to submit itemized receipts with signed statements regarding the purpose of each charge to accounting staff.
- Requiring supervisory or Board review of all charges (or those over a certain dollar amount).

In addition, the Board could consider the use of a corporate purchasing card which would authorize charges only at approved vendors and for approved dollar amounts.

Recommendation No. 8:

The CCOERA Board should implement controls over credit card usage. These controls should include processes for review, approval, and documentation of credit card expenses, and establishment of controls for tracking and obtaining timely reimbursement if personal use of credit cards is permitted.

CCOERA Board Response:

Agree. Implementation date: Ongoing. This has already been done by the Board. New policy has been set since June of 2003 that requires documentation of credit card expenditures. There is to be absolutely no personal use of credit cards. The Executive Director is required to review every expenditure made by the staff on a monthly basis and is required to sign off on checks prior to the payment of the credit card debt by the accounting department. The Executive Director's credit card statements are reviewed by the Board's chairperson and his expense reimbursements are reviewed and approved by the Board. Employees submitting expense reports are required to attest by signature that the expenses were in accordance with Board approved guidelines. Documentation required follows IRS guidelines including receipts, identification of the business purpose of the trip, record of individuals in attendance and the nature of the business activity. The Board continues to enhance and strengthen existing expense controls to assure compliance with its policy. However, in the past the Board relied upon and was assured by the Executive Director that all credit card expenses were proper and well documented.

Travel and Conference Related Expenses

CCOERA staff travel extensively throughout Colorado and the United States. In-state travel typically consists of customer service related travel and attendance at in-state conferences. Out-of-state travel includes attendance at national conferences. Travel related expenses include auto leases, fuel and mileage reimbursements, lodging, meals, airfare, and conference sponsorships. Travel costs represent the single largest category of expenses charged on CCOERA's credit cards, averaging about $60,000 annually in Fiscal Years 2002 and 2003, or about one-third of the total charges. Travel costs also make up a portion of the credit card charges for the "Education and Conferences" and "Marketing Expense" categories in the table on page 53. In addition to the credit card expenses, CCOERA's general ledger shows that a significant amount of travel costs are paid directly by the Association. For Fiscal Years 2002 and 2003, CCOERA spent a total of about $365,000 for travel and conference related expenses in the following broad categories:

- About $169,000 primarily for in-state travel by customer service representatives who are responsible for visiting employer members to provide information and investment counseling.

- About $34,000 for in-state travel for staff and Board members to attend conferences and meetings such as a Colorado Counties, Inc., conference.

- About $94,000 for out-of-state travel for CCOERA executive staff and Board members to attend conferences and meetings such as the annual National Association of Governmental Defined Contribution Administrators (NAGDCA) conference and the Pension and Investments (P&I) conference.

- About $45,000 for conference registration and sponsorship fees.

- About $23,000 for the Association's annual meeting.

We reviewed documentation relating to CCOERA's travel and conference expenses, as well as the policies and practices followed by CCOERA staff and Board members for incurring and reporting such expenses. We identified a number of concerns with the expenses, as well as with the underlying policies, as follows:

- **Undocumented payments to a non-employee.** Among the travel expenses recorded in the general ledger, we found routine monthly payments of $300 to an individual who appeared to be neither employed by, nor under contract with, the Association, between July 2000 and June 2002, totaling $5,400. CCOERA has no documentation showing that these expenses were incurred on behalf of CCOERA or confirming that they were travel-related. CCOERA did not issue either a W-2 or a 1099-Misc form to the individual.

- **Violations of the travel expense policy.** CCOERA's travel reimbursement policy for Board members, staff, and spouses allows payment for "all costs of travel, including lodging, meals, and fuel (mileage) . . . . However, spouses of Board members and Staff shall not receive any reimbursement for the costs of transportation to sites outside of Colorado." We identified three instances totaling about $900 when out-of-state airfare for spouses was paid for by CCOERA and was not reimbursed by the employee.

- **Automobile leases.** During Fiscal Years 2002 and 2003 CCOERA leased five different vehicles for three staff members (two vehicles for most of 2002 and three in 2003) at an average monthly lease cost of over $700 per vehicle, or a total of about $49,000 for the two year period, including insurance and registration fees. The vehicles were generally high-end makes, including an Audi S4, two Audi Allroads, an Acura MDX, and a Toyota 4Runner. As of the end of April 2004, all vehicles had been sold or returned to the dealer.

- **Mileage reimbursement rate.** CCOERA reimburses mileage at 51.7 cents per mile. According to CCOERA's Operating and Procedural Manual, this rate is based on the "Average Total Cost Per Mile" for 15,000 miles per year as determined by the American Automobile Association (AAA). This average cost reflects operating and ownership costs such as oil, gas, taxes, depreciation, and insurance. However, this rate far exceeds the Standard Mileage Rate established by the IRS, which is currently 37.5 cents per mile, and the State's mileage reimbursement rates of 32 cents per mile for SUVs and 28 cents per mile for regular vehicles. Based on estimates of actual mileage reimbursements paid by the Association in Fiscal Year 2003, CCOERA could have saved about $3,300 had it used the lower IRS reimbursement rate, or about $4,400 if it had used even the State's higher rate for sport utility vehicles. These estimates represent a reduction in CCOERA's total reimbursement costs of more than 25 percent.

We found that CCOERA's policies do not establish reasonable spending limits. First, there are no established dollar limits for travel related expenses. As a result, staff and Board members have no guidelines or expectations for prudent spending. Second, the policy that allows the Association to pay travel expenses for spouses provides no apparent benefit to CCOERA participants. The policy specifically allows for payment of travel related expenses to all functions, including routine Board meetings, Board dinners, in-state conferences, and out-of-state conferences, except for transportation to out-of-state functions, for spouses of CCOERA staff and Board members. Due to the lack of documentation for travel expenses, including meals, lodging, and transportation, we could not determine a total cost for spouses to participate in CCOERA functions over the period we reviewed.

Overall, CCOERA's policies and practices relating to travel expenses do not appear consistent with its responsibility to operate solely to benefit plan participants and incur only costs that are appropriate and reasonable for managing the plans. CCOERA should implement controls to limit travel expenses to only those that are reasonable and necessary. Such controls should include the implementation of policies limiting travel expenses to costs that are appropriate and to individuals who have legitimate travel costs that benefit the plans' participants. All staff and Board members should be bound by the policies.

Recommendation No. 9:

The CCOERA Board should implement controls to limit travel expenses to only those that are reasonable and necessary.

CCOERA Board Response:

Agree. Implementation date: Ongoing. Since June of 2003, the Board has been strengthening expense controls including travel. The Board continues to review policies and procedures on a regular basis and has taken steps to ensure compliance to those policies in existence.

Staff Compensation

As part of our review, we compared budgeted to actual compensation for a sample of CCOERA staff for parts of Fiscal Years 2001 through 2004. Through the end of Calendar Year 2003, the Association paid its staff (excluding the Executive Director) an annual salary as well as quarterly bonuses (incentive compensation). According to CCOERA staff, in January 2004 CCOERA increased staff salaries to incorporate the majority of the bonus amounts and restricted the use of incentive pay. Prior to this change, for some employees, bonuses represented up to 20 percent of their total compensation. Salary and bonuses for each individual staff member are approved by the Board prior to the beginning of the fiscal year. Total compensation for CCOERA staff was about $826,000 for Fiscal Year 2002 and about $868,000 for 2003. Bonuses totaled about $101,000 and $100,000, respectively, for these years.

We noted a number of discrepancies between budgeted incentive compensation and actual incentive compensation for individual CCOERA staff. The following table summarizes the discrepancies.

CCOERA Incentive Pay Variances
Fiscal Years 2002 and 2003

Type of Variance	2002	2003
Individuals Receiving More Than Budgeted[1]	10	3
Amount Exceeding Budget	$5,199	$2,600
Individuals Receiving Less Than Budgeted[1]	3	9
Amount Under Budget	$635	$9,800[2]
Individuals Receiving Budgeted Amount[1]	2	4

Source: Office of the State Auditor evaluation of CCOERA general ledgers and budgets.
[1] Includes both full- and part-time staff.
[2] Includes $8,300 for individuals not receiving bonuses due to termination of employment during the fiscal year.

According to the Association's Operating and Procedural Manual, the awarding of incentive compensation is at the discretion of the Executive Director. While some evidence provided suggests that a quarterly review of bonuses took place, the Association could provide written Executive Director approval for the awarding of bonuses in only one out of the eight quarters in Fiscal Years 2002 and 2003.

While the Executive Director has discretion to award incentive compensation, it is not clear whether he or she has discretion to increase bonus awards above those approved annually by the Board. As can be seen in the table above, ten individuals in Fiscal Year 2002 and three individuals in Fiscal Year 2003 received bonuses exceeding the amount approved by the Board. In addition, in Fiscal Year 2002 total bonuses paid to individual staff exceeded the originally budgeted amount by about $4,600; however, total bonuses awarded did not exceed the total budgeted amount for all incentive compensation for either year. Although the Association has recently restricted the use of incentive compensation, the Board should clarify whether the Executive Director requires Board approval to award bonuses exceeding the budgeted amounts.

In addition, one Association employee received a management fee "approximating 1 basis point of the assets of the Association plans" for managing the Book Value fund. During our review we noted that this individual received compensation totaling about $9,000 more than budgeted from July of 2000 through September of 2003. According to the Board, these additional payments were not authorized and, as of September 2003, the practice of compensating any CCOERA staff member specifically for management of the Book Value fund has been discontinued.

Recommendation No. 10:

The CCOERA Board should establish and implement written policies regarding the approval and modification of staff bonuses. The policy should stipulate whether Board approval is required for changes in compensation for any individual employee prior to the change occurring.

CCOERA Board Response:

Agree. Implementation date: Fiscal Year 2004-2005. The previous bonus policy has been discarded. The Board has embarked upon a study of compensation including bonuses with the intent to remain competitive in the marketplace. New salaries and possibly bonuses will be included in CCOERA's 2004-2005 fiscal year budget. Expected implementation date is Fiscal Year 2004-2005. The Executive Director shall report to the Board any recommended changes in compensation for any employee of CCOERA for approval.

Other Administrative Expenses

In addition to travel, conference, and compensation expenses, we reviewed other types of administrative costs incurred by CCOERA. We noted that some expenses in these areas appear high and controls could be improved to safeguard Association assets.

Promotional Items. From Fiscal Year 2001 through 2003, CCOERA spent a total of about $87,000 on promotional items, or an average of $29,000 annually. Promotional items include shirts, calculators, flashlights, mints, tote bags, coffee mugs, pens, blankets, hats, and magnets with the CCOERA logo. These items are typically distributed by CCOERA staff either at in-state conferences or during visits to member employers. We found a lack of controls over the promotional items. Specifically:

- The storage room at CCOERA's offices where the promotional items are maintained was unlocked.

- Most items are not inventoried. Although many are low cost items, CCOERA could track them on a bulk basis, such as by box, rather than individually.

- The inventory process for shirts is inadequate. CCOERA maintains an inventory control sheet where staff are expected to record the number of shirts taken to use for promotion. If the total number taken is not used, those shirts are replaced and the inventory sheet is corrected. We tested a random sample of shirts to compare actual inventories to the inventory control sheet. Tests involved removing nine different types and sizes of shirts from the cabinet where they are stored, counting them, and comparing the counts to the inventory sheet. We found that in only 22 percent of our tests did the actual number of shirts match the numbers on the control sheet.

Although promotional expenses are approved as part of the budget, CCOERA has no official written policy regarding the receipt, storage, and distribution of promotional items.

Miscellaneous Administrative Expenses. We reviewed other administrative expenses incurred by CCOERA during Fiscal Years 2002 and 2003 and found that over the two year period about $39,500 was spent on items such as meals and golf in the local area and supplies for the office kitchen.

Board Expense. The Association pays each Board member $300 per board meeting for board "compensation." The $300 is in addition to reimbursements to Board members for travel, meals, and lodging expenses associated with Board meetings. From the beginning of Fiscal Year 2002 through the first six months of Fiscal Year 2004, Board compensation totaled about $33,000 for 24 meetings. The Board met more frequently than usual in Fiscal Year 2003 and the first half of Fiscal Year 2004, causing the total Board expenses to be higher than normal. None of the other public boards for which we collected information (the Fire and Police Pension Association, the Colorado Public Employees' Retirement Association, the Colorado Housing and Finance Authority, and the State 457 Plan Committee) receive any compensation for board meetings. The State's Lottery Commission members receive stipends of $100 per meeting day.

For all the administrative expenses described above, we estimate CCOERA spends an average of about $60,000 annually. These costs are paid for by plan participants and employers through the fees charged on participant accounts. To ensure participants are receiving value for their fees, CCOERA should improve its policies and internal controls over all administrative expenses. In addition, CCOERA should consider significantly reducing or eliminating its Board compensation, similar to other public boards.

Recommendation No. 11:

The CCOERA Board should establish or strengthen policies and internal controls over administrative expenses with a goal of reducing overall expenses. In addition, the Board should consider significantly reducing or eliminating the compensation provided to Board members.

CCOERA Board Response:

Partially agree. Implementation date: Ongoing. The Board is investigating the reduction of overall expenses vigorously as part of the annual budget review and approval process. The Board continues to rewrite policies in order to strengthen internal controls and control expenses. This process has been in place since last fall.

Compensation to the Board members is entirely reasonable given the time that each individual devotes to the organization. The Board members spend many personal hours on CCOERA business every month. However, the Board is constantly reviewing the necessity of every expense to the participants and will continue to consider the Board compensation issue as part of that process.

Member Entities

Section 24-54-101, C.R.S., provides the general authority for counties, districts, and municipalities to establish and maintain individual or joint retirement systems for their officers and employees. Section 24-54-101(2), C.R.S., contains specific language regarding the districts that may participate in any retirement plan or system established under this article. Specifically, the statute states:

> Any district organized or existing pursuant to part 2 of article 20 of title 30, part 5 or 6 of article 25 of title 31, or title 32, except article 8, C.R.S., referred to in this article as a "district", and not otherwise having a pension fund may, by itself or in conjunction with any other district organized pursuant to said part 2 of article 20 of title 30, part 5 or 6 of article 25 of title 31, or title 32, except article 8, C.R.S., or in conjunction with any county covered by this article, authorize, establish, and maintain a general plan or system of retirement benefits for its employees, or any class thereof, subject to appropriations available therefor.

The districts referenced by this section of the statute include the following:

- Any district organized or existing pursuant to Section 30-20-200, et. seq., C.R.S. This section creates disposal districts, allowing for the “collection and disposal of garbage, waste, and trash” in unincorporated areas.

- Any district organized or existing pursuant to Sections 31-25-500 and 600, et seq., C.R.S. These sections create public improvement districts, including general and special improvement districts.

- Any district organized or existing pursuant to Title 32 except article 8. This title creates a variety of special districts, including recreation districts, hospital districts, and water and sanitation districts, among others. Article 8 pertains specifically to the Moffat Tunnel Improvement District.

Section 24-54-101(3), C.R.S., goes on to say that any plan established under this article “shall not apply to or include firefighters or policemen. Retirement plans or benefits for firefighters or policemen shall be established and maintained pursuant to the provisions of title 31, C.R.S.”

We reviewed the list of employers that had employees with account balances in either of CCOERA’s plans as of June 30, 2003 and identified 25 that do not appear to meet the statutory definitions above. Specifically we found:

- Seven non-profit organizations with 51 members and about $545,000 in assets as of June 30, 2003.

- Fourteen special districts, with 221 members and about $5.8 million in assets as of June 30, 2003, that are created through statutes other than those specified in Section 24-54-101(2), C.R.S.

- Two police departments and two fire departments with a combined total of 18 active police officers and 15 active firefighters participating in CCOERA plans. These participants had about $818,000 in total assets in the plans as of June 30, 2003. Police officers and firefighters are prohibited from participating in CCOERA, as noted above.

According to CCOERA staff, beginning in about January 2002, potential new employer members are reviewed by the Association's general counsel to ensure they are eligible to join the plans. CCOERA staff were unable to explain how new employer members were screened prior to that time. All of the above mentioned entities joined CCOERA before 2002. We found no written policies or procedures for approving new member employers. Board members reported that they are not informed of potential new employer members and do not approve their joining the Association.

CCOERA reviewed the entities listed above and indicated that all but 4 of the 25 are authorized to participate in CCOERA, generally due to their association with a county or municipal entity. The four exceptions include three irrigation and water conservancy districts and one of the non-profit organizations. According to CCOERA, the irrigation and water conservancy districts were mistakenly considered special districts under Section 32-1-103, C.R.S.; the participation of the non-profit organization was not explained.

We believe CCOERA's statutes are unclear with respect to the types of entities that are intended to be allowed to participate. Allowing all counties, municipalities, special districts, and related organizations to participate may provide benefits to both the employers and the Association. Through the Association, member employers are able to access large group plans which may offer more investment options and potentially lower fees than may otherwise be available. By having more members, CCOERA can achieve economies of scale. However, clarifying the intent of the statutes would help ensure that all CCOERA members are legally allowed to participate. In particular, we believe the statutes should clarify the following:

- Whether all special districts may join CCOERA (rather than just those currently specified).

- Whether other entities formed under the purview of a city, county, or special district, may join CCOERA.

- What types of non-profit entities, if any, are authorized to join CCOERA.

- Whether police officers and firefighters who are not required to participate in the Fire and Police Pension Association (FPPA) may join CCOERA.

Based on such changes, CCOERA should evaluate whether all currently participating entities are allowed to be CCOERA members. CCOERA should work with any entities that are not allowed to terminate them from the plans. In addition, CCOERA should follow any new statutory provisions in developing and documenting a process for approval of new members which includes approval by the Governing Board.

Recommendation No. 12:

The CCOERA Board should work with the General Assembly to clarify statutes regarding what entities are permitted to participate in the plans. The Board should also establish and document a process for ensuring that potential new member employers are statutorily eligible to participate in the plans. The process should include review and approval of new members by the Governing Board. In addition, the Board should work with any unallowed employers members to terminate them from the plans.

CCOERA Board Response:

Agree. Implementation date: 2005 Legislative Session. A new policy has been adopted. Admission to CCOERA of new participating entities will only occur on the majority vote of the Governing Board. At the time that the Governing Board considers the admission of a new participating entity, it shall be provided in advance of that consideration the following: a) Fully completed and executed Participation Agreements from the prospective new participating entity; b) A written summary from the Executive Director describing or identifying the prospective new participating entity, the elected officials of that entity, who the entity contact will be for that entity, the plans the entity will participate in, the estimated amount of rollovers from a prior retirement plan, the contribution levels at which it will participate and the estimated per annum contributions from the entity; and c) A written certificate from the attorney for the Association as to the legal status of the prospective new participating entity, the statute under which the entity was formed, the IRS organizational status and that the entity is qualified and permitted to become a participating entity pursuant to 24-54-101 *et. seq.* C.R.S.

Admission of a new participating entity shall not occur unless and until the Governing Board has been provided all of the above described documentation and the Governing Board, by a majority vote, has approved its admission to CCOERA.

The Board intends to work with the Legislature in the next session in order to clarify eligibility of various governmental entities to participate in CCOERA since CCOERA provides economy of scale to smaller governmental entities that wish to provide retirement benefits to their employees at a reasonable cost.

Plan Oversight

Chapter 3

Defined contribution plans such as the CCOERA 401(a) and 457 plans offer employees both choice and responsibility by allowing them to direct the investment of their accounts. The shifting of the responsibility, risks, and rewards of retirement plan investing to employees has important regulatory, legal, risk management, and oversight implications for sponsoring employers and plan administrators. The establishment of efficient, cost-effective, and accountable administrative systems and trustee relationships is important to ensure legal compliance and the overall success of any defined contribution retirement plan.

CCOERA's 401(a) plan is subject to the qualification requirements of section 401(a) and related provisions of the Internal Revenue Code of 1986 (the Code), to the extent they apply to governmental plans. The 457 Plan must satisfy the less complex requirements of section 457 of the Internal Revenue Code.

We examined the CCOERA plans for compliance with current law and to determine whether plan documents are up-to-date and have current or pending favorable Internal Revenue Service (IRS) rulings. In addition, we reviewed the oversight of the plans by the Governing Board and assessed the structure of the Board. We found a number of areas in which CCOERA could strengthen controls over legal compliance and improve general oversight of the plans, as described in this chapter.

Currency of IRS Filings/Rulings

As noted above, both of CCOERA's plans are intended to comply with certain sections of the federal Internal Revenue Code. Plan qualification rules change almost annually and, for 401(a) plans, the IRS provides a "remedial amendment period" during which mandated regulatory and statutory changes must be incorporated into governing plan documents. The remedial amendment periods generally extend over several years and, thus, provide the opportunity for several rounds of required amendments to be included each time. As long as the plan sponsor adopts all of the changes before the end of the period (and related operational requirements are satisfied), the plan's qualified status is protected. If mandated changes are not adopted by the end of the remedial amendment period, the IRS has the authority to impose sanctions ranging from monetary penalties and retroactive operational corrections to plan disqualification.

Mellon reviewed the plan documents and found they appear to meet all requirements for qualified plans. However, Mellon also found that CCOERA has not maintained current rulings from the IRS on the status of its plans, as described below.

401(a) Retirement Plan. The most recent favorable IRS determination letter relating to the 401(a) plan was issued in 1978. CCOERA's 401(a) plan document has most recently been amended and restated in January 2001 and again in January 2003. Mellon reviewed these versions of the plan and found that the recent amendments address several statutory and regulatory developments, including important changes such as the new rollover rules under the Economic Growth and Tax Reconciliation Act of 2001 (EGTRRA). However, Mellon was unable to determine if all federal law and regulation changes occurring over the past 25 years are reflected in the plan or were adopted within applicable deadlines. Mellon did note that, with respect to changes included in the 2003 document, some of the required amendments were not adopted by the established deadlines. For example, changes to the definition of "compensation" under section 401(a)(17) of the Code and changes in the rules used to determine the maximum contribution that can be made on behalf of an individual under section 415 of the Code were included in the 2003 document, but that document was adopted after the applicable remedial amendment period ended on March 31, 2002. Because the Code's requirements are complex and change frequently, it is possible that some amendments have not been incorporated into the plan and that other changes required prior to 2001 were not adopted in time. As a result, there is a risk that the IRS would impose monetary penalties on the plan.

According to information provided by CCOERA, a new determination letter application was submitted to the IRS in September 2003. The potential noncompliance issues Mellon noted, as well as others, could be discovered during IRS review of the application. When IRS rulings are not kept current, there is a risk that qualification problems will be discovered many years after the problems actually occurred. In that situation, the IRS often requires retroactive corrections and the payment of greater penalties than would be imposed if the plan sponsor had voluntarily raised the qualification issues during the determination letter process or other voluntary correction procedure.

457 Deferred Compensation Plan. The formal "determination letter" process used by qualified 401(a) retirement plans is not available to section 457 plans. However, the sponsor of such a plan may request an IRS Private Letter Ruling regarding compliance of a plan with section 457 of the Code. According to information provided by CCOERA staff, the 457 plan was last determined to be an eligible plan under the Internal Revenue Code in April 1993. The 457 plan document was last amended and restated effective August 2002. Mellon found the plan document should be updated to reflect the provisions of the final regulations issued in 2003 under section 457 of the Code. Most of the changes are minor, such as revisions to the definition of "compensation", and do not present much risk of plan disqualification. Nonetheless, to ensure the plan remains compliant with the applicable requirements, CCOERA should update the plan document as soon as possible, particularly as there are no remedial amendment rules allowing for a delay in adoption of required changes to section 457 plans. Recent statutory changes to section 457 made under EGTRRA have already been reflected in the plan.

Certain optional plan features, such as participant loans, could be added when the 457 plan is amended to reflect the final regulations, if deemed advisable by the Board. Availability of plan loans might increase participation in the 457 plan, but could complicate administration to some extent.

Only the IRS can make a definitive ruling on whether a plan is fully qualified under the Code. Although an IRS determination letter is not required, it is generally advisable to obtain one to ensure that a plan continues to meet federal requirements and that contributions continue to maintain their tax-deferred status. Maintaining current IRS determination letters would ensure that the IRS agrees that the plan documents accurately reflect all applicable provisions of the Code in effect at the time the letter is requested. The letters would protect the plans against any later IRS assertion that the form of the plan documents was deficient. Since the qualification requirements of the Code are so complex, the vast majority of corporate and non-profit sector employers, as well as many governmental employers, seek IRS review of their documents to ensure that essential provisions have been included. In the event of a later audit, the IRS may determine that operational defects affecting the plans' qualifications exist, but, if the determination letter is current, the written provisions of the document are generally not open to attack.

Recommendation No. 13:

The CCOERA Board should establish processes to ensure that the 401(a) and 457 plans remain in compliance with federal laws. Specifically, the Board should regularly update the plan documents to reflect any changes in the applicable federal law and request IRS rulings on the plans whenever significant changes are made.

CCOERA Board Response:

Agree. Implementation date: Fiscal Year 2004-2005. Since Spring of 2003, CCOERA has had outside tax counsel review its 401(a) plan and the plan was resubmitted to the IRS. CCOERA has arranged with outside tax counsel to monitor changes in applicable tax laws and make recommendations to

CCOERA as necessary. CCOERA will rely on outside tax counsel to advise it when its retirement plans should be submitted for requalification.

CCOERA intends to submit the 457 plan for requalification during Fiscal Year 2004-2005.

Overall Management Responsibility

A fiduciary of a retirement plan is generally defined as someone who exercises discretionary control over the plan assets or the benefits paid by the plan. There are three general areas of plan operation where this discretionary control is exercised. They are:

- **Plan Administration**–A plan administrator is responsible for determining if an employee has a right to participate in the plan, the vesting status of a participant, the benefit amount payable under the plan, and the eligibility of a participant to receive plan benefits. This responsibility is usually given to a retirement board with specific administrative duties delegated to a staff of employees. The Governing Board is the CCOERA plan administrator.

- **Trusteeship**–A trustee is responsible for the safe keeping of the plan assets. The trustee has the responsibility to accurately track plan contributions and distributions, and direct assets to and from investment managers. These services can be performed by a custodian, but the named trustee has the fiduciary responsibility for these transactions. A trust company or bank trustee is often selected to provide custodial services under a trust agreement, making that company the trustee. CCOERA is self-trusteed, meaning the Governing Board has the fiduciary responsibility for safe-keeping the assets. The 1st Bank of Cherry Creek serves as CCOERA's custodian.

- **Investment Management**–An investment manager makes investment decisions. Most investment options offered in defined contribution plans are mutual funds with specific investment styles and objectives managed by mutual fund companies. The investment manager decides what stocks and/or bonds to buy or sell to provide the best investment return possible for plan participants. The CCOERA Governing Board has selected nine mutual fund companies to manage assets with various objectives. CCOERA also internally manages a pool of GICs (guaranteed investment contracts) which make up a large portion of the Book Value fund.

The Governing Board is the fiduciary for CCOERA's retirement plans and is assigned certain specific duties under Section 24-54-107, et seq., C.R.S. These duties include selecting the type of plan(s) to be established; establishing administrative rules and procedures; deciding who will exercise investment discretion with respect to trust assets (either a bank trustee or the Board member who is treasurer of the most populous member county); and determining benefits payable. CCOERA's Executive Director also has fiduciary responsibilities for the plans. Specifically, under Section 10.2(b) of the 401(a) plan document, the Executive Director is given the authority to direct the trustee to perform its duties as set forth in the document.

Fiduciaries are required to act in the best interest of the plan participants and should follow either the prudent person or prudent expert rule in carrying out their fiduciary responsibilities. However, in our review of CCOERA's operations, we noted a variety of concerns relating to oversight of the plans. These issues are discussed in detail throughout the report and include concerns with:

- **Appropriate and Reasonable Costs.** Chapter 2 discusses a lack of documentation to show the business purpose of many of CCOERA's administrative expenditures, including those for travel, meals, and entertainment. In addition, many of the expenses appear excessive and unnecessary for the operation of the plans.

- **Prudent Investment of Funds.** Chapter 1 discusses concerns with the structure and internal management of the Book Value fund. The primary issues relate to investments in mortgages and liquidity of the fund.

- **Adequate Oversight of Funds.** Chapter 1 also notes weaknesses in the oversight of the Book Value fund. Specifically, there is no independent monitoring or review of the fund and an inadequate benchmark is used to evaluate and report fund performance.

Section 24-54-112, C.R.S., states that the funds of the plans are to be managed and invested by the Board in accordance with the Colorado Uniform Prudent Investor Act (Article 1.1 of Title 15, C.R.S.). This Act establishes a number of requirements for individuals who are responsible to the beneficiaries of a trust, including the following:

- To invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust, and exercising reasonable care, skill, and caution.

- To invest and manage the trust assets solely in the interest of the beneficiaries.

- In investing and managing trust assets, to incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the trust, and the skills of the trustee.

- To exercise reasonable care, skill, and caution in delegating investment and management functions, including the establishment of the scope and terms of the delegation and the periodic review of the agent's actions to monitor performance and compliance with the terms of the delegation.

CCOERA's Operating and Procedural Manual includes standards of professional and ethical conduct. These standards set forth a number of expectations for members of the Governing Board and CCOERA employees, including requiring them to:

- Recognize and be accountable for their responsibility as fiduciaries.
- Avoid any activity which may be interpreted as a conflict of interest by others.
- Exercise prudence and integrity in the management of funds in their custody.

CCOERA's 401(a) plan is intended to serve as covered employees' primary retirement savings vehicle. Therefore, it is important for the plan to be managed in accordance with clearly defined and strictly administered standards. We believe the CCOERA Board should develop and follow formalized standards, policies, and procedures to help ensure that the plans are administered in a prudent and diligent manner. These standards, which could be incorporated into the ethical standards section of the Operating and Procedural Manual, should reflect applicable provisions of the Uniform Prudent Investor Act and specify that, in managing the plans, the Board will:

- Act solely in the interest of CCOERA participants and for the exclusive purpose of providing benefits to the members.
- Act with care, skill, prudence, and diligence in carrying out its duties.
- Limits costs to those that are appropriate and reasonable in relation to the assets and the purposes of the trust.
- Avoid activities that might result in a conflict of interest.

In addition, the Board should establish reporting and monitoring procedures to ensure the policies are carried out. Such procedures could include having all Board members and staff sign conflict of interest disclosures annually.

Recommendation No. 14:

The CCOERA Board should adopt and follow detailed fiduciary standards, policies, and procedures consistent with applicable provisions contained in the Colorado Uniform Prudent Investor Act.

CCOERA Board Response:

Partially agree. Implementation date: Fiscal Year 2004-2005. CCOERA is already complying with the applicable standards of the Colorado Uniform Prudent Investor Act. Investment decisions are participant-directed, not Board directed.

The Board's actual investment decisions are limited to the Book Value fund and are even more restricted to setting investment ranges for cash, GICs (guaranteed investment contracts) and the mortgage pool. Subsequent investment decisions are limited to cash (purchasing certificates of deposit) and GICs. The Board is in the process of creating an RFP for the management of the Book Value fund. With the assistance of its investment sdvisor, it plans to analyze the results and determine whether to continue as the manager of the Book Value fund.

The CCOERA Governing Board

The CCOERA Governing Board is responsible for general oversight of the Association and the plans. According to Section 24-54-108(1), C.R.S., "The retirement board of any association formed pursuant to the provisions of section 24-54-106 shall have full and complete control and management of any retirement plan provided for and authorized by this article . . . . Such retirement board shall make all necessary rules and regulations for managing and discharging its duties, for its own government and procedure in so doing, and for the preservation and protection of any fund or annuity contract."

The Board's oversight duties, which are spelled out in CCOERA's Operating and Procedural Manual and Investment Policy Statement, include:

- Approving an annual budget for the Association.
- Reviewing and approving expenditures on a quarterly basis.
- Reviewing fund performance on a quarterly basis.
- Approving the fund options offered to participants.
- Approving fund managers.

We reviewed the Board's structure and membership and compared it with other similar Boards in Colorado, as shown below.

Comparison of Governing Board Composition

Statutory Board Characteristics	CCOERA	State 457	FPPA[1]	PERA[2]	CHFA[3]
Total # of Board Members	5	9	9	16	11
# of State Officials	0	2	0	2	1
# of Elected Members	4	4	0	14	0
# of Appointed Members	0	3[4]	9[5]	0	10[6]
Requirement for Relevant Experience?	No	No	Yes[7]	No	Yes[8]

Source: Office of the State Auditor analysis of Colorado Revised Statues**.**

[1] Fire and Police Pension Association.

[2] Colorado Public Employees' Retirement Association.

[3] Colorado Housing and Finance Authority.

[4] 1 member appointed by the Governor, 1 member appointed by the President of the Senate, and 1 member appointed by the Speaker of the House.

[5] All members appointed by the Governor.

[6] 9 members appointed by the Governor, 1 member appointed jointly by the Speaker of the House and the Majority Leader of the Senate.

[7] 1 member from the state's financial or business community with experience in investments, 1 member with experience in insurance disability claims, and 1 member with experience in personnel or corporate administration in corporations of over 200 hundred employees.

[8] 1 member with experience in mortgage banking, 1 member with experience in real estate transactions, and 6 members with consideration given to architects and planners.

We identified two general concerns with the Board's structure. First, there are no municipal or special district employees or officials on the Board. Currently, there are two members from Jefferson County, and one member each from Mesa, Crowley, and Cheyenne Counties. However, as of June 30, 2003, about 75 percent of all plan participants are county employees and the remaining 25 percent are employees of other member entities, primarily municipalities and special districts. These employees are currently not directly represented by the Board. While the board members chosen by county commissioners could technically be from current or former municipal or special district employees, the CCOERA Board could not recall any such members. We believe including representation on the Board for municipal and special district members would improve equity and increase accountability to all stakeholders.

Second, with a relatively small board, CCOERA could benefit from additional financial expertise. As shown in the table above, other public retirement plans in the State have statutory requirements that bring additional experience to their boards: the Public Employees' Retirement Association (PERA) Board includes both the State Auditor and the State Treasurer; the Deferred Compensation Committee for the State's 457 plan includes both the State Treasurer and the State Controller; the Colorado Housing and Finance Authority (CHFA) Board includes the State Auditor and eight other members with specific expertise requirements; and the Fire and Police Pension Association (FPPA) Board has experience requirements for three of its members. Other ways for the CCOERA Board to enhance the financial experience available would be to have in place a formal educational program for either new or continuing Board members and establish advisory committees composed of nonmembers who can contribute in specialized areas. It is important that members possess the knowledge and resources to deal with the complex issues involved in financial operations and pension management decisions.

Recommendation No. 15:

The CCOERA Board should expand representation and availability of expertise by considering the implementation of one or more of the following options:

a. Restructuring the Board to provide for at least one non-county Board member.

b. Enhancing financial expertise by establishing either an advisory committee and/or seeking statutory changes that require specific experience for some board members.

c. Establishing an educational program for Board members.

The Board should seek statutory change as appropriate.

CCOERA Board Response:

Partially Agree. Implementation date: Fiscal Year 2004-2005. The Board will take the components of Recommendation 15 under consideration and further study during Fiscal Year 2004-2005. Part of the study will include the evaluation of other boards currently existing in the state of Colorado as regards these recommendations.

CCOERA Employers and Participants
As of June 30, 2003

	Employer	Members			Account Balances		
		Active	Inactive	Total	401(a)	457	Total
1	AKRON (TOWN OF)	11	1	12	$285,037	$61,933	$346,970
2	ALAMOSA COUNTY	161	19	180	$3,010,346	$1,058,136	$4,068,482
3	ARCHULETA COUNTY	153	33	186	$1,715,729	$229,585	$1,945,314
4	BACA COUNTY	66	10	76	$789,616	$151,506	$941,122
5	BANCROFT WATER DISTRICT	8	-	8	$941,425	$203,233	$1,144,658
6	BEAR CREEK WATER & SANITATION DIST	4	-	4	$102,414	$15,043	$117,457
7	BENNETT (TOWN OF)	9	-	9	$78,712	$81,453	$160,165
8	BENT COUNTY	61	8	69	$1,156,946	$71,501	$1,228,447
9	BENT COUNTY MEMORIAL NURSING HOME	48	16	64	$433,175	$77,076	$510,251
10	BENT COUNTY NURSING SERVICE AUTH	13	1	14	$134,385	$18,584	$152,969
11	BLUE RIVER (TOWN OF)	-	1	1	$10,244	$0	$10,244
12	BOULDER COUNTY	-	190	190	$5,756,418	$21,976	$5,778,394
13	BUENA VISTA (CITY OF)	12	2	14	$306,511	$58,932	$365,443
14	CASTLE ROCK (TOWN OF)	72	84	156	$2,491,671	$208,995	$2,700,666
15	CCOERA	14	3	17	$1,395,991	$245,131	$1,641,122
16	CEDAR HILL CEMETERY DIST	1	1	2	$44,523	$0	$44,523
17	CEDAREDGE (TOWN OF)	23	6	29	$415,273	$39,783	$455,056
18	CENTRAL GRAND VALLEY SAN DIST	2	-	2	$8,817	$0	$8,817
19	CHAFFEE COUNTY	156	13	169	$3,865,118	$551,601	$4,416,719
20	CHEYENNE COUNTY	46	11	57	$780,703	$386,072	$1,166,775
21	CLEAR CREEK COUNTY	137	38	175	$2,954,961	$1,347,200	$4,302,161
22	CLEAR CREEK FIRE AUTHORITY	1	-	1	$7,635	$0	$7,635
23	CLIFTON SANITATION DIST	5	-	5	$318,181	$0	$318,181
24	COLLBRAN (TOWN OF)	11	3	14	$208,063	$7,411	$215,474
25	COLUMBINE VALLEY (TOWN OF)	2	1	3	$35,675	$0	$35,675
26	CONEJOS COUNTY	70	18	88	$1,278,892	$417,644	$1,696,536
27	CONEJOS COUNTY LIBRARY DIST	1	-	1	$54,669	$0	$54,669
28	COSTILLA COUNTY	83	23	106	$1,674,215	$63,986	$1,738,201
29	CREEDE (TOWN OF)	3	-	3	$6,211	$1,524	$7,735
30	CRESTED BUTTE (TOWN OF)	45	3	48	$1,107,807	$322,224	$1,430,031
31	CRESTED BUTTE FIRE DISTRICT	5	-	5	$94,331	$24,649	$118,980
32	CRESTED BUTTE SOUTH METRO	4	-	4	$134,292	$10,963	$145,255
33	CRESTVIEW WATER	11	-	11	$1,622,137	$211,389	$1,833,526
34	CRIPPLE CREEK (TOWN OF)	75	21	96	$987,875	$171,135	$1,159,010
35	CROWLEY (TOWN OF)	13	-	13	$25,873	$5,079	$30,952
36	CROWLEY COUNTY	38	3	41	$842,331	$114,247	$956,578
37	CUSTER COUNTY	66	8	74	$1,077,898	$209,051	$1,286,949
38	DANIELS SANITATION	4	-	4	$110,376	$13,422	$123,798
39	DELTA COUNTY	187	14	201	$3,372,134	$732,077	$4,104,211
40	DILLON (TOWN OF)	19	4	23	$724,319	$45,715	$770,034
41	DOLORES COUNTY	49	6	55	$923,112	$581,131	$1,504,243
42	DOUGLAS COUNTY	-	532	532	$12,544,028	$1,142,469	$13,686,497
43	EAGLE COUNTY	315	57	372	$9,034,270	$1,549,043	$10,583,313
44	EAGLE VALLEY LIBRARY DISTRICT	40	9	49	$1,093,882	$224,447	$1,318,329
45	EAST YUMA COUNTY CEMETERY DISTRICT	1	-	1	$11,261	$0	$11,261
46	EDGEWATER (CITY OF)	13	4	17	$206,866	$776	$207,642
47	ELBERT COUNTY	131	35	166	$2,473,727	$571,189	$3,044,916
48	ELEVENTH JUDICIAL DISTRICT	22	3	25	$555,857	$49,541	$605,398
49	FAIRMOUNT FIRE PROTECTION DIST	-	2	2	$13,610	$0	$13,610
50	FIFTEENTH JUDICIAL DISTRICT	6	2	8	$96,559	$93	$96,652
51	FLEMING (TOWN OF)	3	-	3	$35,613	$6,409	$42,022
52	FOUNTAIN (CITY OF)	79	19	98	$789,184	$800,128	$1,589,312
53	FOUNTAIN SANITATION DISTRICT	6	-	6	$170,247	$53,571	$223,818
54	FRASER (TOWN OF)	9	1	10	$92,569	$46,371	$138,940
55	FRASER SANITATION DISTRICT	2	-	2	$10,132	$0	$10,132
56	FRASER VALLEY RECREATION DISTRICT	11	137	148	$411,740	$54,445	$466,185
57	FREMONT COUNTY	233	24	257	$4,729,768	$676,137	$5,405,905
58	GARFIELD CNTY EMERGENCY COMM AUTH	19	8	27	$193,321	$13,830	$207,151
59	GARFIELD COUNTY	338	50	388	$5,953,167	$919,191	$6,872,358
60	GENESEE WATER DISTRICT	9	1	10	$798,993	$43,182	$842,175

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	Employer	Members			Account Balances		
		Active	Inactive	Total	401(a)	457	Total
61	GEORGETOWN (TOWN OF)	2	3	5	$42,528	$11,274	$53,802
62	GILPIN COUNTY	104	30	134	$1,813,672	$323,852	$2,137,524
63	GRAND COUNTY	179	52	231	$5,425,596	$879,111	$6,304,707
64	GRAND COUNTY LIBRARY DISTRICT	19	6	25	$168,994	$23,026	$192,020
65	GRAND JUNCTION DRAINAGE	17	-	17	$989,122	$579,937	$1,569,059
66	GREATER BRIGHTON FIRE PROTECTION DIST	-	11	11	$0	$12,827	$12,827
67	GREEN MOUNTAIN WATER & SANIT DIST	-	2	2	$0	$64,825	$64,825
68	GREENWAY FOUNDATION	-	1	1	$0	$28,113	$28,113
69	GUNNISON (CITY OF)	56	7	63	$1,100,214	$208,976	$1,309,190
70	GUNNISON CEMETERY DISTRICT	3	-	3	$16,952	$0	$16,952
71	GUNNISON COUNTY	171	12	183	$3,067,560	$1,432,306	$4,499,867
72	GUNNISON POLICE DEPARTMENT	14	-	14	$628,305	$2,995	$631,300
73	GUNNISON VALLEY HOSPITAL	117	31	148	$2,020,477	$490,709	$2,511,186
74	GYPSUM (TOWN OF)	20	3	23	$418,165	$96,945	$515,110
75	HAXTUN (TOWN OF)	7	1	8	$100,676	$4,099	$104,775
76	HEALTH CARE CENTER - GUNNISON	48	33	81	$255,554	$121,567	$377,121
77	HIGH VIEW WATER DISTRICT	4	-	4	$91,758	$12,159	$103,917
78	HINSDALE COUNTY	26	1	27	$744,301	$157,913	$902,214
79	HOLLY (TOWN OF)	8	2	10	$63,009	$14,537	$77,546
80	HOLYOKE (CITY OF)	18	3	21	$497,124	$45,173	$542,297
81	HOLYOKE HOUSING AUTHORITY	1	-	1	$17,616	$0	$17,616
82	HOTCHKISS (TOWN OF)	-	10	10	$53,471	$32,376	$85,847
83	HUERFANO COUNTY	79	5	84	$1,849,425	$147,459	$1,996,884
84	HUGO (TOWN OF)	8	2	10	$16,984	$0	$16,984
85	JACKSON COUNTY	32	8	40	$1,048,946	$61,760	$1,110,706
86	JEFFERSON CNTY HOUSING AUTH	16	-	16	$598,406	$148	$598,554
87	JEFFERSON COUNTY	2,294	261	2,555	$130,363,023	$8,212,514	$138,575,537
88	JULESBURG (TOWN OF)	12	-	12	$222,813	$182,416	$405,229
89	JULESBURG IRRIGATION DISTRICT	7	1	8	$88,074	$29,666	$117,740
90	KIOWA COUNTY	43	2	45	$813,971	$105,411	$919,382
91	KIOWA PUBLIC LIBRARY DISTRICT	2	-	2	$23,037	$11,846	$34,883
92	KIT CARSON (TOWN OF)	2	-	2	$11,609	$11,227	$22,836
93	KIT CARSON COUNTY	98	12	110	$1,875,916	$428,550	$2,304,466
94	KIT CARSON COUNTY MEMORIAL HOSPITAL	100	30	130	$1,658,951	$196,870	$1,855,821
95	KREMMLING (TOWN OF)	1	4	5	$131,052	$148,775	$279,827
96	LA PLATA COUNTY	349	61	410	$9,811,307	$1,405,975	$11,217,282
97	LAKE COUNTY	74	20	94	$2,217,390	$332,470	$2,549,860
98	LAS ANIMAS COUNTY	160	21	181	$3,531,044	$234,424	$3,765,468
99	LAS ANIMAS-HUERFANO COUNTIES	16	-	16	$64,919	$4,710	$69,629
100	LINCOLN COUNTY	-	36	36	$86,498	$179,743	$266,241
101	LOGAN COUNTY	169	11	180	$3,774,676	$794,252	$4,568,928
102	LOWER VALLEY FIRE DISTRICT	4	1	5	$165,015	$10,453	$175,468
103	M.A.D.A.	5	1	6	$78,019	$0	$78,019
104	MEEKER (TOWN OF)	14	3	17	$523,044	$58,289	$581,333
105	MEEKER POLICE DEPARTMENT	3	1	4	$12,847	$0	$12,847
106	MEEKER SANITATION DISTRICT	-	4	4	$203,148	$10,346	$213,494
107	MESA COUNTY	848	61	909	$27,259,277	$4,052,515	$31,311,792
108	MESA COUNTY LIBRARY DISTRICT	54	7	61	$1,263,219	$290,279	$1,553,498
109	MESA COUNTY PUBLIC TRUSTEE	3	-	3	$86,003	$0	$86,003
110	MINERAL COUNTY	22	1	23	$700,793	$126,198	$826,991
111	MOFFAT COUNTY	-	2	2	$13,656	$4,629	$18,285
112	MOFFAT MEMORIAL HOSPITAL	136	86	222	$4,287,340	$909,401	$5,196,741
113	MONTEZUMA COUNTY	172	13	185	$3,332,953	$650,489	$3,983,442
114	MONTROSE COUNTY	306	51	357	$5,921,150	$1,727,718	$7,648,868
115	MONTROSE HOUSING AUTHORITY	11	3	14	$91,710	$51,828	$143,538
116	MONTROSE LIBRARY	11	2	13	$99,032	$11,910	$110,942
117	MONTROSE MEMORIAL HOSPITAL	343	60	403	$7,480,522	$1,231,227	$8,711,749
118	MORGAN COUNTY	226	27	253	$5,045,256	$431,911	$5,477,167
119	MORGAN COUNTY 13TH JUDICIAL DISTRICT	14	2	16	$87,961	$4,586	$92,547
120	MORRISON (TOWN OF)	7	4	11	$44,207	$30,116	$74,323

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	Employer	Members			Account Balances		
		Active	Inactive	Total	401(a)	457	Total
121	MOUNT CRESTED BUTTE (TOWN OF)	17	4	21	$674,225	$130,822	$805,047
122	MOUNT CRESTED BUTTE WATER DISTRICT	9	-	9	$235,818	$42,395	$278,213
123	NEW CASTLE (TOWN OF)	20	2	22	$173,554	$28,325	$201,879
124	NEW ELMWOOD CEMETERY DISTRICT	2	-	2	$21,413	$3,303	$24,716
125	NINTH JUDICIAL DISTRICT	16	17	33	$351,995	$53,901	$405,896
126	NORTH WASHINGTON ST. FIRE PROT DISTRICT	2	-	2	$94,060	$30,427	$124,487
127	NORTH WASHINGTON ST. WATER DISTRICT	13	-	13	$475,175	$22,613	$497,788
128	NORTHEAST COLO REVOLVING LOAN FUND	2	-	2	$16,365	$8,819	$25,184
129	NORTHWEST COLO COUNCIL OF GOVERNMENTS	33	38	71	$593,311	$31,455	$624,766
130	NORTHWEST LAKEWOOD SANITATION	-	3	3	$521,610	$20,257	$541,867
131	OLATHE (TOWN OF)	11	1	12	$69,270	$3,479	$72,749
132	ORCHARD CITY (TOWN OF)	5	-	5	$16,844	$0	$16,844
133	ORCHARD MESA SANITATION	2	-	2	$221,437	$28,581	$250,018
134	OTERO COUNTY	162	1	163	$5,713,969	$537,418	$6,251,387
135	OURAY (CITY OF)	17	2	19	$306,242	$135,630	$441,872
136	OURAY COUNTY	48	6	54	$1,315,588	$265,355	$1,580,943
137	PAGOSA AREA WATER & SAN DISTRICT	21	5	26	$501,368	$163,570	$664,938
138	PAGOSA FIRE PROTECTION DISTRICT	3	1	4	$161,444	$0	$161,444
139	PAGOSA SPRINGS (TOWN OF)	23	5	28	$445,588	$250,489	$696,077
140	PARACHUTE (TOWN OF)	5	2	7	$17,936	$4,583	$22,519
141	PARK COUNTY	207	48	255	$2,549,028	$448,267	$2,997,295
142	PHILLIPS COUNTY	44	4	48	$740,569	$57,713	$798,282
143	PITKIN COUNTY	-	130	130	$573,116	$3,560,118	$4,133,234
144	PITKIN COUNTY LIBRARY	-	4	4	$151,941	$0	$151,941
145	PLATTE CANYON WATER & SAN DISTRICT	12	2	14	$1,068,289	$77,654	$1,145,943
146	PLEASANT VIEW WATER	3	1	4	$270,024	$126,660	$396,684
147	PRITCHETT (TOWN OF)	2	-	2	$9,522	$0	$9,522
148	PROSPECT RECREATION & PARK DISTRICT	4	1	5	$47,165	$5,392	$52,557
149	PROWERS COUNTY	162	19	181	$3,981,319	$195,184	$4,176,503
150	REGION 10 LEAP, INC.	4	-	4	$53,752	$32,314	$86,066
151	RIDGWAY (TOWN OF)	7	1	8	$125,287	$14,956	$140,243
152	RIO BLANCO COUNTY	180	29	209	$5,758,104	$451,960	$6,210,064
153	RIO GRANDE COUNTY	113	5	118	$2,893,631	$127,441	$3,021,072
154	SALIDA REGIONAL LIBRARY	4	1	5	$22,183	$31,032	$53,215
155	SAN JUAN BASIN HEALTH DEPARTMENT	59	10	69	$1,223,117	$131,556	$1,354,673
156	SAN JUAN COUNTY	20	1	21	$442,374	$43,004	$485,378
157	SAN LUIS VALLEY RSW AUTHORITY	4	-	4	$42,912	$5,335	$48,247
158	SAN MIGUEL COUNTY	101	9	110	$4,166,287	$794,478	$4,960,765
159	SECURITY WATER DISTRICT	23	3	26	$820,184	$149,518	$969,702
160	SEDGWICK COUNTY	38	6	44	$373,267	$34,804	$408,071
161	SEVENTH JUDICIAL DISTRICT	19	3	22	$260,638	$150,797	$411,435
162	SILT (TOWN OF)	13	5	18	$41,173	$14,869	$56,042
163	SILVER CLIFF (TOWN OF)	2	-	2	$3,865	$0	$3,865
164	SILVER CREEK WATER & SANITATION DIST	8	7	15	$118,834	$139,079	$257,913
165	SILVERTON (TOWN OF)	8	3	11	$116,692	$19,296	$135,988
166	SILVERTON-SAN JUAN AMBULANCE ASSN	1	-	1	$16,547	$0	$16,547
167	SIXTEENTH JUDICIAL DISTRICT	12	4	16	$136,861	$0	$136,861
168	SOUTH ADAMS COUNTY FIRE	-	1	1	$8,879	$0	$8,879
169	SOUTH CENTRAL COUNCIL OF GOVERNMENTS	25	5	30	$200,626	$47,728	$248,354
170	SOUTH FORK (TOWN OF)	5	-	5	$11,402	$0	$11,402
171	SOUTHEAST COLO FAMILY GUIDANCE CENTER	-	2	2	$5,892	$0	$5,892
172	SOUTHEAST COLORADO HOSPITAL	125	30	155	$991,105	$322,156	$1,313,261
173	SOUTHEAST COUNCIL OF GOVERNMENTS	-	6	6	$34,175	$39,156	$73,331
174	SPRINGFILED (TOWN OF)	10	1	11	$237,619	$288,712	$526,331
175	SUMMIT COUNTY	323	61	384	$6,668,319	$2,107,632	$8,775,951
176	TELLER COUNTY	187	25	212	$3,338,027	$474,959	$3,812,986
177	TELLURIDE HOSPITAL DISTRICT	14	5	19	$14,964	$1,045	$16,009
178	TRINIDAD (CITY OF)	111	5	116	$2,671,078	$328,154	$2,999,232
179	TRINIDAD AMBULANCE DISTRICT	8	-	8	$92,118	$4,003	$96,121
180	UPPER GUNNISON RIVER WATER DISTRICT	1	1	2	$19,653	$2,091	$21,744

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Employer		Members			Account Balances		
		Active	Inactive	Total	401(a)	457	Total
181	UPPER SAN JUAN HOSPITAL DISTRICT	37	78	115	$421,347	$29,534	$450,881
182	UPPER SAN JUAN LIBRARY DISTRICT	4	-	4	$98,638	$56,426	$155,064
183	URBAN DRAINAGE & FLOOD CONTROL I	21	-	21	$2,709,014	$1,354,131	$4,063,145
184	URBAN DRAINAGE & FLOOD CONTROL II	21	-	21	$3,993,207	$0	$3,993,207
185	UTE WATER CONSERVANCY DISTRICT	63	3	66	$3,617,309	$303,698	$3,921,007
186	VICTOR (CITY OF)	-	8	8	$10,641	$19,310	$29,951
187	WALDEN (TOWN OF)	5	2	7	$157,946	$0	$157,946
188	WALSH (TOWN OF)	3	-	3	$6,185	$0	$6,185
189	WASHINGTON COUNTY	91	5	96	$1,614,738	$257,020	$1,871,758
190	WEST CUSTER COUNTY HOSPITAL DIST	-	22	22	$8,304	$58,297	$66,601
191	WESTCLIFFE (TOWN OF)	2	-	2	$18,196	$0	$18,196
192	WHEATRIDGE (CITY OF)	118	29	147	$4,758,093	$476,134	$5,234,227
193	WHEATRIDGE FIRE PROTECTION DISTRICT	2	1	3	$92,294	$0	$92,294
194	WHEATRIDGE SANITATION DISTRICT	-	1	1	$24,728	$0	$24,728
195	WIDEFIELD WATER & SANITATION	17	3	20	$158,959	$21,958	$180,917
196	WINTER PARK W. WATER & SAN DISTRICT	4	-	4	$20,463	$21,154	$41,617
197	YUMA COUNTY	93	5	98	$1,752,070	$480,345	$2,232,415
198	YUMA COUNTY WEED & PEST CONTROL DIST	3	1	4	$20,767	$11,144	$31,911
SUBTOTAL		**12,135**	**3,119**	**15,254**	**$384,607,770**	**$55,620,677**	**$440,228,447**
	RETIRED AND TERMINATED MEMBERS	-	1,428	1,428	$57,243,783	$11,988,106	$69,231,889
TOTAL		**12,135**	**4,547**	**16,682**	**$441,851,553**	**$67,608,783**	**$509,460,336**

Source: Office of the State Auditor analysis of data provided by CCOERA.

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