BURGER & COMER, P.C. CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees Government of Guam Retirement Fund:

In planning and performing our audit of the financial statements of The Government of Guam Retirement Fund (the "Fund") as of and for the year ended September 30, 2007 we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

During our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated February 1, 2008 contains our report on reportable conditions in the Fund's internal control. This letter does not affect our report dated February 1, 2008, on the financial statements of the Government of Guam Retirement Fund.

The accompanying comments and recommendations are intended solely for the information and use of the Board of Trustees, management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Fund personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Junge of Comm, P.C.

Tamuning, Guam February 1, 2008

CURRENT YEAR COMMENT:

DEFINED CONTRIBUTION PLAN EXPENSES

Use of Forfeitures

In fiscal year 2002, we reported a finding related to the lack of a mechanism to use forfeited employer contributions to recover plan administrative expenses. Subsequently, Public Law 28-141 was passed and clarified this issue. Under P.L. 28-141 it is clear that the Government of Guam Retirement Fund (the "Fund") is allowed to use forfeited employer contributions to offset plan administrative expenses.

During the year ended September 30, 2007 the defined contribution (DC) plan received forfeited employer contributions from the third party administrator (TPA). Some of these forfeited contributions were used to reimburse the defined benefit (DB) plan for costs it had paid to establish the DC plan more than ten years ago.

Also during the year ended September 30, 2007 the management of the Fund analyzed the internal costs of providing support services to the DC plan. Salaries, related personnel expenses, and other administrative expenses were allocated to the DC plan and will be reimbursed to the DB plan from forfeited employer contributions. The calculated amount for fiscal year 2007 was \$763,421. This amount is reflected as a liability of the DC plan and an asset of the DB plan on the September 30, 2007 audited financial statements.

Conclusion:

Our purpose in pointing this out is that this represents a significant change from previous practice as a result of Public Law 28-141. Annual operating expenses that have been paid by the DB plan have not been charged to the DC plan in the past. We believe that it is fair and reasonable to charge the appropriate expenses to the DC plan.

The DC plan will continue to receive forfeited contributions in the future, and these forfeited amounts may be used to recover administrative expenses. To the extent that forfeited funds are not used for administrative expenses, they are to be used to offset future employer contributions.

CURRENT YEAR COMMENT:

DEFINED CONTRIBUTION PLAN EXPENSES

Third Party Administrator Expenses

Since its inception, the DC plan has had one third party administrator. Under the contract with the TPA, participants are charged \$13.52 per quarter. Starting in fiscal year 2002, an additional \$4.10 per quarter was charged to participants, as well as a percentage of any participant funds invested in a stable value fund. In addition to the \$13.52 per quarter, the TPA contract allows the TPA to bill the DC plan for various personnel and office expenses, subject to annual maximums.

In our review of the billings from the TPA, we noted two credits in one of the billings. The first credit was for "12b-1" fees, and the second was a percentage of funds invested in profile series funds offered under the DC plan.

We could not find anything in the TPA contract pertaining to these two credits. We attempted to gain an understanding of why these credits were granted, how they were calculated, and whether additional credits may be forthcoming. It is possible that the DC plan may be entitled to further credits from the TPA. The amounts reflected on the billing as credits were not material for audit purposes. Management should also consider whether such credits should be allocated to the members' accounts.

Recommendation:

We recommend that Fund management investigate this issue further.

PRIOR YEAR COMMENTS BEING REPEATED:

FUNDING STATUS

In prior year's we commented on the DB plan's funded status and unfunded liability. We believe that it is necessary to repeat the comment at this time, since the funded ratio (the percentage derived by dividing actuarial value of assets by the actuarial accrued liability) dropped in the 2006 actuarial valuation to 49.7%. This is despite a high rate of return on invested assets during the fiscal year.

The two main reasons for the drop in funded ratio are that the actual contribution rate approved by the Guam Legislature is less than the actuarially calculated rate and the annuity payments continue to exceed contributions.

The fact that annuity payments exceed contributions results in liquidations of plan assets. The Fund does not remit all contributions to the investment managers due to the cash flow situation. This compounds the problem, because those contributions were never invested to provide a return for the plan.

Recommendations:

We are therefore repeating our recommendations that we made in fiscal year 2006, as follows:

- 1. The Guam Legislature should carefully read the actuarial valuation reports each year, and should use their best efforts to comply with the actuarially required contribution rate.
- 2. Consideration should be given to offering further incentives to defined benefit plan members to induce them to transfer to the defined contribution plan.
- 3. Consideration should be given to modifying the defined benefit plan to reduce benefits and to set a maximum annual annuity. This would be a last resort. The other options should be explored first.

PRIOR YEAR COMMENTS BEING REPEATED:

DISASTER RECOVERY PLAN

In fiscal year 2006, we commented that the Fund does not have a documented disaster recovery plan. We believe that it is necessary to repeat the comment at this time, since a written disaster recovery plan will specify where and how vital information will be backed up, stored, and recovered.

We have located an excellent resource for developing a disaster recovery plan. There is a website for the "Disaster Recovery Journal". The website address is <u>http://www.drj.com/new2dr/samples.htm</u>.

The plan will also specify where and how information processing will take place after a disaster. It is important that a compatible, off-site computer system is available for this task. Fund employees need to know certain pieces of information, including where the off-site processing is to take place.

Recommendation:

As we indicated in the 2006 report, we recommend that the Fund designate an individual in each department to draft the relevant aspects of the plan that pertain to their division and that one person be charged with assembling the various components into a final written plan.

Auditee response:

Although the Fund does not have a documented disaster recovery plan, the Fund does have regular backup procedures and offsite storage of critical files. The following factors are also in place to mitigate potential risks:

- 1. The Fund performs full system backups on a monthly basis. Tapes are stored in an off-site safe deposit box.
- 2. The Fund performs daily backups, which are kept in a fire-proof safe.
- 3. The Fund is able to call upon other Government of Guam Agencies, such as the Department of Administration, to assist in IT systems recovery in the event of a disaster; which has been done in prior disasters.
- 4. In terms of Investments, the Fund's investment holdings and books of record are maintained off site by its Third Party Administrator/Custodian.

Management has also indicated that following factors will further mitigate potential risks in the event of a disaster:

- 1. The Fund will be issuing a Request for Proposal for an Imaging System and related imaging services.
- 2. The Fund will be issuing a Request for Proposal to provide fire-proof insulation for the records room and to replace the sprinkler system with a non-water based fire suppressant system.
- 3. The Fund will also be developing a comprehensive written Disaster Recovery Plan, which incorporates the items noted above.