

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, 2009 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 12, 2010 contains our report on reportable conditions in the Fund's internal control. This letter does not affect our report dated February 12, 2010, 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.


Tamuning, Guam
February 12, 2010

CURRENT YEAR COMMENTS:

UNFUNDED LIABILITY

Late in December 2009 the Director of the Department of Administration issued a memo to all Government of Guam agencies. In that memo, she determined that the Government of Guam Retirement Fund was a “multiple employer” plan and not a “single employer” plan. With such a determination and under Statement No. 27 of the Governmental Accounting Standards Board (GASB), the various Government of Guam agencies would remove the actuarially determined liability for unfunded pension benefits from their financial statements and would instead disclose the liability in their footnotes.

The problem is that GASB 27 does not include a clear definition that would enable readers to make a determination if a plan was a single employer or a multiple employer. We contacted the GASB and they concur that the definition is not adequate. They also stated that the GGRF should make its own determination of its status and that the Government of Guam agencies should follow GGRF’s determination.

We conducted further research, which supports the conclusion that the Government of Guam Retirement Fund is a single employer plan. Unless adequate support is found to change this determination, we recommend that the GGRF continue to reinforce the position that it is a single employer plan.

PREPARATION OF FINANCIAL STATEMENTS

We are pleased to report that the staff of the Government of Guam Retirement Fund once again prepared the Management’s Discussion and Analysis (MD&A), the financial statements, footnotes to the financial statements, and all supporting schedules.

UPDATE ON PRIOR YEAR COMMENTS

DEFINED CONTRIBUTION (DC) PLAN EXPENSES

Third Party Administrator (TPA) Expenses

In our management letter for fiscal year 2008, we recommended that GGRF management look into potential credits from the DC plan TPA. We noted in fiscal year 2009 that the Fund received substantial additional credits for its share of “12b-1” fees. Further, the Fund now has a basis for calculating its share of such fees. Accordingly, we feel that the GGRF now has a reasonable method to determine the fee sharing arrangement and to calculate its share of the relevant fees.

FUNDING STATUS

In prior years we commented on the defined benefit (DB) plan's funded status and unfunded liability, particularly when the investment performance has been poor. We feel it is necessary to repeat the comment this year, since the funded ratio (the percentage derived by dividing actuarial value of assets by the actuarial accrued liability) was 54% in the 2007 actuarial valuation and dropped to 44.54% in the 2008 actuarial valuation.

The fact that annuity payments exceed contributions results in liquidations of plan assets. In fiscal years 2009 and 2008, annuity payments exceeded the total of interest, dividends, and contribution income by about \$10 million and \$17 million, respectively. The Fund does not remit all contributions to the investment managers due to the cash flow situation. This can compound the problem in a growth environment, because those contributions were never invested to provide a return for the plan.

Our concern is that the Board of Trustees, in their fiduciary capacities, are tasked with ensuring that the DB plan survives for a sufficient length of time so that all individuals entitled to annuities will receive them when they come due.

Recommendations:

We are therefore repeating, our recommendations that we made in fiscal years 2006, 2007 and 2008, as follows:

1. The Board should consider modifying the benefits offered under the DB plan. There are certain elements of the calculations that could be changed on a prospective basis, such as excluding non-base pay in the calculation of the average salary. It might even be feasible to set a maximum dollar amount for an annuity.
2. The Board should consider consulting with the Guam Legislature to see if legislation could be passed to require autonomous agencies to contribute the actuarially determined rate for employer contributions.