

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 (Fund) for the year ended September 30, 2006 we considered the Fund's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted the matter identified as a material weakness in the memorandum accompanying this letter involving internal control and its operation that we consider to be a material weakness 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 15, 2007 contains our report on reportable conditions in the Fund's internal control. This letter does not affect our report dated February 15, 2007, 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 many of 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.

Sincerely,

Burger & Comer, P.C.

DISASTER RECOVERY PLAN

The Government of Guam Retirement Fund (the "Fund") does not have a documented disaster recovery plan, although the Fund does have regular backup procedures and off-site storage of critical files.

A written disaster recovery plan will specify where and how vital information will be backed up, stored, and recovered. 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.

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.

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 <http://www.drj.com/new2dr/samples.htm>.

DEFINED BENEFIT PLAN FUNDING STATUS

Historically, the Fund hires an actuary to calculate the annual employer contribution percentage required for the Fund to achieve fully funded status in accordance with Guam law. The actuary computes the percentage and includes this percentage in the valuation report. The Legislature then sets a contribution percentage as part of the annual budgeting process. The statutory percentage has historically been less than the actuarially determined percentage.

What this means is that the Fund is not progressing toward full funding status. There is not enough money being contributed on an annual basis to meet the expected future obligations. In short, the money is going to run out. From 1998 to 2003, the DB Plan's security ratio dropped every single year from a high of 72.7% in 1998 to the 2003 level of 46.2%. For the 2004 actuarial valuation, there was a slight increase in the security ratio to 47.9%. The 2005 actuarial valuation shows a security ratio of 50.1%.

Compounding the situation is the fact that over \$130 million in supplemental benefits was advanced by the Fund in the late 1990s. These advances are being collected by the Fund over a twenty year period, without interest. Had these funds remained with the investment managers, they would have grown substantially over the past seven or so years.

The DB plan earned 8.0% in fiscal year 2006 on its beginning invested assets. By comparison, CalPERS, the nation's largest pension plan, earned 11.8% for their fiscal year ended June 30, 2006.

The DB Plan will eventually decrease to zero as a result of the creation of the Defined Contribution plan. As older retirees pass away, annuity payments are decreased. As active members retire, annuity payments are increased.

Whenever an active DB Plan member transfers to the DC Plan, it helps to reduce the unfunded liability of the DB Plan. The same is true when a DB Plan member receives a refund of their contribution. Accordingly, one way for the funded status of the DB plan to improve is for DB members to transfer to the DC plan.

We are repeating our fiscal year 2003 recommendations 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 modifying the defined benefit plan to reduce benefits and to set a maximum annual annuity in dollar amount.

Auditee Response/Corrective Action Plan

Management of the Fund concurs with this finding and will take steps to address the recommendations above, particularly to ensure that the contribution rate approved by the Guam Legislature complies with the actuarially recommended rate.