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, 2008 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 two matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated February 12, 2009 contains our report on reportable conditions in the Fund's internal control. This letter does not affect our report dated February 12, 2009, 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 Fund management, 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.

Burger & Comer, P.C.

Tamuning, Guam
February 12, 2009

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CURRENT YEAR COMMENTS:

PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Government of Guam Retirement Fund include Management's Discussion and Analysis (MD&A), the financial statements, footnotes to the financial statements, and several supporting schedules.

Even though the reporting package described above is supposed to be prepared by the auditee, our experience as auditors over the past 25 years has been that the auditee generally relies on its auditors to draft the financial statements, footnotes and supporting schedules. The MD&A is typically developed by the auditee and reviewed by the audit firm.

For the first time that we can recall, the auditee actually drafted the MD&A, the financial statements, the notes to the financial statements, and the supporting schedules. This was a very pleasant surprise, and we would like to commend the staff and management at the Government of Guam Retirement Fund that assisted in this process.

PRIOR YEAR COMMENTS BEING REPEATED:

DEFINED CONTRIBUTION PLAN EXPENSES

Third Party Administrator Expenses

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. The credits granted in the past 2 years have been approximately $300,000 per year.

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. 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 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 will likely be lower when the 2008 actuarial valuation is completed.

The fact that annuity payments exceed contributions results in liquidations of plan assets. In fiscal year 2008, annuity payments exceeded the total of interest, dividends, and contribution income by about $17 million. For fiscal year 2007, annuity payments exceeded the total of interest, dividends, and contributions by almost $19 million. 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.

Fiscal year 2008 saw a large decline in the value of the DB plan's investments. The markets have not regained these losses as of the date of this letter. Even though it is unlikely, if the Fund experienced similar investment losses over the next 4 or 5 years, the DB plan would collapse.

There is no easy solution. We are pleased that the Guam Legislature has narrowed the gap between the actuarially calculated contribution rate and the statutory rate.

Recommendations:

We are therefore repeating, with some modifications, our recommendations that we made in fiscal years 2006 and 2007, 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.