



OFFICE OF THE PUBLIC AUDITOR

## **Government of Guam Retirement Fund FY 2002 Financial Highlights**

May 13, 2004

The 2002 financial audit of the Government of Guam Retirement Fund (Fund) conducted by Burger and Comer has been completed ten months past the June 30, 2003 deadline.

As of September 30, 2002, the Fund's investment portfolio was \$1.194 billion, down \$96 million from \$1.290 billion for the prior year. The two factors largely responsible for the \$96 million drop were (1) the general market decline, which was reflective of U.S. market conditions, and (2) liquidation of principal to pay retirement benefits.

The Fund liquidated \$108 million of income-earning assets in order to make annuity and supplemental/COLA payments. Liquidation of principal does not allow the Fund to grow in order to meet future annuity payments.

Defined Benefit (DB) annuity payments continue to increase, totaling \$146.9 million compared to \$144.9 million in FY 2001. DB contributions declined by \$5.2 million in FY 2002 to \$86.2 million, compared to \$91.4 million in 2001. Thus payments to the Fund were \$60.7 million less than annuities paid in the period.

The Fund was also saddled with paying Supplemental/COLA Benefits from 1999 to 2002, a burden that in the past was paid by the General Fund. Supplemental/COLA receivables increased to \$106.5 million from \$82.6 million in 2001 and represent nearly half of the Fund's total receivables of \$223 million.

In a separate letter to the Fund, Burger and Comer raised the specter of the Fund's long-term vitality, saying "unless major change occurs, the Government of Guam Retirement Fund's Defined Benefit Plan will run out of money long before those entitled to benefits receive them."

Administrative and general expenses for the DB and Defined Contribution (DC) plans increased \$400,000 and are now \$3.9 million compared to \$3.5 million in FY 2001. DC expenses were \$469,000 in 2001 and more than doubled to \$990,000 in 2002.

While DB expenses appear to have declined by \$126,000 to \$2.9 million from \$3 million, a closer look shows that bad debt recoveries of \$924,000 contributed to the reduction. Without bad-debt recoveries, DB expenses were \$3.9 million up from \$3.3 million in 2001 (again exclusive of bad-debt recoveries of \$252,000).

Legal fees to private counsel were the largest factor increasing expenses, up tenfold to \$337,000 from \$32,000 in prior year.

The bad debt recoveries represent Guam Memorial Hospital Authority payments on its promissory note. In March 1998 the Fund accepted a promissory note from GMHA in the amount of \$9,385,720. Because of the uncertainty of this collection, the Fund created a reserve for uncollectible notes of \$8 million, which was charged to the administrative and general expenses. Bad debt recoveries represent payments on the GMHA note. As of FY 2002 the balance of the note was \$7,748,022.

In FY 2002, 75 DB members transferred to the DC plan with their corresponding contributions of \$2.7 million. These DB member transfers to the DC plan will help reduce the Fund's unfunded liability, which was \$1.2 billion as of the FY2002 actuarial report.

The Fund's report on compliance and internal controls had 20 findings, 10 from FY 2002 and 10 repeat findings from prior years. Many of these findings relate to the Fund's weaknesses in its internal control system, such as lack of verification of invoices to ensure accuracy of payments, delayed follow-up on pending items, incomplete and disorganized annuitants files, and delayed recordings of contributions. Significant findings include:

- Verification of Annuitants--The Fund does not have in place procedures to identify entitled benefit recipients. As a result, overpayments occurred; in one case overpayment exceeded \$100,000 (Finding 2001-20).
- Members Files--Members' files were disorganized and incomplete, which makes determination of contributions, years of service, eligibility, beneficiaries, and other issues difficult to verify (Finding 2002-3).
- Recovery of Fees--The Fund does not have adopted regulations in paying general and administrative charges incurred by the plan administrator, thus participants may not be credited with amounts they may be entitled (Finding 2002-5).
- Allocation of Forfeitures--There is no mechanism to allocate forfeitures, which were \$5,106,242 as of FY 2002 (Finding 2002-9).
- Evaluation of Custodian- The Fund does not periodically evaluate its investment custodians' financial capabilities (Finding 2001-8).
- Access to Participant Accounts--Internal controls should limit staff access to participants' accounts including the ability for staff to make changes to members' investment allocation (Finding 2002-7).

Burger and Comer in a separate letter questioned the propriety of granting an individual, who served on the Fund's Board of Trustees, education retirement credit for attending high school classes.