

Report on Compliance and Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

The Board of Directors
Government of Guam Retirement Fund

We have audited the accompanying financial statements of the Government of Guam Retirement Fund (GGRF), as of and for the fiscal year ended September 30, 2000 and 1999, and have issued our report thereon dated June 1, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the GGRF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as Findings 2000-1, 1999-1 and 1999-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the GGRF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the GGRF's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as item numbers 2000-2 to 2000-14 and 1999-3 to 1999-21.

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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2000-3, 2000-9, 2000-10, and items 1999-3 through 1999-7 to be material weaknesses.

This report is intended for the information and use of management and Board of Trustees of the GGRF. However, this report is a matter of public record and its distribution is not limited.

Bung & Co., P.C.

Tamuning, Guam

June 1, 2003

GOVERNMENT OF GUAM
RETIREMENT FUND
(A Public Corporation)

Schedule of Findings

September 30, 2000 and 1999

CURRENT YEAR (2000) FINDINGS

Finding No. 2000-1 – Miscalculation of Retirement Benefit, continued

Cause

It seems that the GGRF classified this official's service for those years as excluded service, which would require the retiree to pay only the employee's share for those years. We believe that the granting of a retroactive benefit was caused by management override of the system of internal controls. We believe that the \$80,000 over-credit was due to human error.

Effect

The GGRF did not receive the employer's contribution for the years 1995 to 1997. The granting of a retroactive benefit will cost the GGRF additional amounts over the life expectancy of the individual. Further, the retroactive benefit was overstated by approximately Eighty Thousand Dollars (\$80,000).

Recommendation

We recommend that the GGRF establish a policy or seek legislation clarifying a person's ability to change their decision whether to be a member or non-member. Further, GGRF should require this official to repay the \$80,000 error.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

During the last process of annuity finalization the signatories required are completed by staff, administrator, director, and the Chairman of the Board of Trustees. This file was not submitted to the Board of Trustees for their review and approval. To ensure that this condition does not occur, we will codify procedures which identify the policy and signatories required for processing retirees under the finalization of annuity and review of their annuity finalization worksheet prior to their placement on the retiree payroll.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

As this matter was not submitted to the Board of Trustees for their review and approval, the result of management's review will be submitted to the Board of Trustees for their review and recommend that we will bill and collect the remaining balance due of employee and employer contributions during the period in which government service was credited and annuities paid out during the period in which service is being credited.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-2 – Reconciliation of Contributions Received and Receivable

Criteria

Employer and employee contributions must be recorded timely and accurately as to account, amount and time period. Member contributions must be properly applied to participant accounts.

Condition

Contributions received are not reconciled to employer payroll records or to individual participant account records.

Cause

This situation existed due to a lack of oversight of the accounting section during that fiscal year.

Effect

There is a possibility that contributions received or receivable are not properly summarized and recorded in the accounting system, and that member contributions are not properly allocated to the participant accounts.

Recommendation

The accuracy of contributions received should be verified upon receipt. A periodic review of the allocation to participant accounts should be performed by a person other than the person entering the information into the records.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

This practice has been corrected in Fiscal Year 2003. Receivables are being recorded upon receipt of payroll data provided by each agency and reconciliation procedures are being performed by the Members Contribution Reserve (MCR) Section on a monthly basis.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-3 – Accuracy of Contributions Received and Receivable

Criteria

Proper processing of employer contributions requires that employer contribution reports are checked for the accuracy of the contribution rate, the hours worked, the period, the social security number, and for mathematical accuracy.

Condition

Employer contribution reports are received by GGRF in both printed and electronic format, together with checks for the total amount. GGRF personnel do not perform any testing of these reports to ensure the accuracy of the information.

Cause

This situation was caused by a lack of oversight of the accounting section during that fiscal year.

Effect

Errors in these reports could lead to improper annuity amounts or to improper approvals of annuities.

Recommendation

When the employer contribution report is submitted, GGRF personnel should ensure that the contribution rate is proper. This can be done on an overall basis and does not need to be done by individual member. Further, GGRF personnel should randomly select individual names to verify that the social security number is correct.

Auditee Response/Corrective Action Plan

We partially disagree with this audit finding.

Validity of data received, such as hours worked, SS#, and contribution rates are the responsibility of the reporting department or agency. If a SS# is incorrect or account non-existent, member's contribution will reject. A reject report is created for research by Members Contribution Reserve (MCR) Section Accounting Technician.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-3 – Accuracy of Contributions Received and Receivable, continued

The posting of contributions can only be done after the cause of rejection is discovered. Procedures have been established for the proper review and verification of payroll data received. Data from diskettes will be reviewed for mechanical accuracy and an MCR Technician will manually calculate receivable for both member and employer contributions.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-4 – Employer Payroll Records

Criteria

Proper administration of a pension plan dictates that the administering entity periodically conducts audits of employer payroll records.

Condition

GGRF does not conduct any audits of employer payroll records.

Cause

This situation exists due to a lack of personnel to perform this function.

Effect

There is a possibility that phantom employees exist and are participating in the GGRF. These people may have submitted personnel action forms to the GGRF to enroll in the system.

Recommendation

One method used to detect phantom employees is to conduct a surprise observation of the distribution of payroll checks. If payroll is distributed electronically, surprise observations will not achieve the desired result. In those cases, review of personnel files and direct communication with the employee will be required.

At least once each year, there should either be a surprise observation of the distribution of payroll checks for each Government of Guam agency or inspection of personnel files and communication with members to determine that phantom employees are not being paid.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

However, we do not agree with the recommendation to perform surprise observation of payroll distributions at the various Government of Guam agencies. The function of surprise payroll reviews is the function of the employing agency and its independent auditor.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-5 – Reconciliation of Investment Accounts

Criteria

Investment transactions must be properly authorized, properly documented, in compliance with plan provisions, properly recorded in detail records, and properly accumulated, classified, and summarized in control accounts.

Condition

Reconciliations of detailed investments accounts to control accounts are performed and documented, but are not reviewed by the Director or another appropriate person.

Cause

Lack of oversight by the previous Director and lack of a controller during that fiscal year.

Effect

The possibility exists that investment transactions and balances could be misstated.

Recommendation

Investments detail records should continue to be reconciled to the control accounts. The Controller should review the reconciliations for the propriety of the reconciling items and should follow up on unusual or recurring reconciling items.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

A Controller was hired in February 2003 to address financial, investment, and certain administrative duties of the Fund.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-6 – Evaluation of Custodian

Criteria

A public employee retirement system utilizing a custodian for investment securities should ensure that the custodian has a good reputation, operates with integrity, and has the financial capability to handle the custodial function prior to entering into the custodial relationship. These factors should be periodically evaluated. This review would include the financial institution's financial statements, report of the institution's independent auditor, and rating bureau reports.

Condition

GGRF does not periodically evaluate the financial capability of the custodian.

Cause

There was a lack of oversight by the previous Director and lack of a controller during that fiscal year.

Effect

If the custodian's financial condition were to be significantly impaired, the value of any investments GGRF had at the custodian might require a reduction in value.

Recommendation

At a minimum, GGRF should obtain and review the custodian's annual audited financial statements.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

A Controller was hired in February 2003 to address financial, investment, and certain administrative duties of the Fund.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-7 – Participant Enrollment and Withdrawal Information

Criteria

All eligible employees must be notified of their eligibility and must be allowed to participate in the plan. All those participating in the plan must be eligible to participate. Withdrawal requests should be properly documented and authorized.

Condition

There are enrollment forms in use to log in all new participants. There are forms used to request withdrawal or transfer of participant balances. These forms are not numerically controlled.

Cause

There is a reliance on the social security number to identify participants.

Effect

After enrollment, all queries related to that person must be initiated by social security number. The use of pre-numbered forms facilitates reconciliation of participant data and the use of control totals. It also makes it fairly easy to determine how many new participants entered into or withdrew from the plan in any fiscal year.

Recommendation

All new participants should fill out a pre-printed and pre-numbered enrollment form. The numerical sequence of those forms should be controlled. All requests for withdrawals should be documented on pre-printed and pre-numbered forms.

Auditee Response/Corrective Action Plan

We do not agree with this finding.

We properly document all enrollment and withdrawal information. We do not believe that there are apparent risks associated with the current system or procedure.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-8 – Reconciliation of DC plan account balances

Criteria

In a defined contribution system, it is essential that contributions and investment earnings are properly allocated to individual participant accounts.

Condition

Certain comparisons are performed by GGRF only at year end instead of periodically during the year. These comparisons include: (1) comparing the total of individual participant balances to net assets in the financial statements, (2) comparing the number of account balances to the number of plan participants, and (3) evaluating the figures for reasonableness.

Cause

There is reliance on a third-party administrator to perform these functions.

Effect

There is a possibility that financial statement figures may be misstated or that unauthorized persons are participating in the plan. There is also a possibility that contributions are not properly allocated to individual accounts.

Recommendation

At least quarterly, GGRF personnel should compare the total of individual participant balances to total net assets and should compare the number of account balances to the number of plan participants.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

An accounting technician within the MCR section will be assigned the task of quarterly comparisons. This procedure will commence in the third quarter of fiscal year 2003.

The Retirement Fund will reconcile between total participant balances per the quarterly report and total net assets and compare number of account balances to the number of participants per the quarterly report from FASCORP.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-9 – Cash Disbursements

Criteria

To ensure that payments are not made twice for the same invoice, the supporting documents attached to a check should be canceled or marked with some sort of identification indicating that payment was made.

Condition

Items attached to checks are not canceled or otherwise marked to indicate that payment was made.

Cause

Lack of oversight of the disbursements function.

Effect

There is a possibility that funds could be diverted by an unscrupulous employee.

Recommendation

GGRF should utilize a “PAID” stamp on all supporting documents attached to a check. The check number and date of payment should appear on all supporting documents.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

Current disbursement procedures require that invoices entered in the accounts payable module are audited and released for payment by the Accounting Technician Supervisor. The checks and supporting documents are then reviewed by the Cash Supervisor and approved by the Controller.

GOVERNMENT OF GUAM RETIREMENT FUND
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Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-10 – Bank Reconciliations

Criteria

A proper segregation of duties mandates that persons handling cash receipts or cash disbursements should not prepare bank reconciliations.

Condition

In the DC plan, the same person handles cash receipts and prepares the bank reconciliation.

Cause

This situation was allowed to occur as there was no monitoring of the internal control system.

Effect

There is a possibility that funds could be misappropriated.

Recommendation

Responsibility for preparing the DC plan bank reconciliation should be reassigned to another person.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

We have implemented a new procedure for bank reconciliations which requires monthly review by the Cash Supervisor and approval by the Controller for all bank accounts. Random checks are also performed during the month to confirm transactions are properly recorded.

GOVERNMENT OF GUAM RETIREMENT FUND
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Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-11 – Stale Dated Checks

Criteria

Cash disbursements that do not clear within a reasonable time frame should be investigated by a person independent of the cash disbursements function.

Condition

There are outstanding checks listed on the bank reconciliations that date back as far as 1992.

Cause

GGRF has not maintained a policy for disposition of stale-dated checks.

Effect

Cash balances and accounts payable balances can be misstated. Checks that are lost in the mail could be diverted.

Recommendation

A person with no responsibilities for preparing bank reconciliation or having involvement with cash disbursements or general ledger postings should be assigned to investigate checks that are outstanding for more than 60 days. The intended recipients of the checks should be contacted to determine if the checks were received.

Auditee Response/Corrective Action Plan

We agree with this audit findings.

We will be implementing a new policy regarding stale dated checks after legal consultation on procedures to insure that we have indeed exhausted all avenues available to contact check recipients. This policy is scheduled to be implemented by the end of fiscal year 2003.

GOVERNMENT OF GUAM RETIREMENT FUND
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Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-12 – Restricted Endorsements

Criteria

Checks received in the mail must be deposited intact in a timely manner.

Condition

All incoming checks are routed through the Director's office. These checks are then forwarded to accounting for deposit to the Bank. There is no restrictive endorsement placed on the checks prior to forwarding them to the accounting department.

Cause

There was a lack of oversight of the internal control function during that fiscal year.

Effect

Checks received in the mail could be mistakenly or intentionally deposited to the wrong account.

Recommendation

When checks are received in the mail and opened by the Director's secretary, a restrictive endorsement stamp should be applied to the back of the check prior to forwarding to the accounting department.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

An endorsement stamp will be provided to the Director's office for use in stamping checks received prior to forwarding to the accounting department.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-13 – Accuracy of Vendor Invoices

Criteria

Payments for goods and services should be supported by contracts, invoices, purchase orders, or other appropriate documentation. Payments should be recorded properly and in a timely manner. Payments should only be made for goods or services received.

Condition

There is no procedure in place to ensure the mathematical accuracy of vendor invoices.

Cause

Lack of oversight of the internal control system.

Effect

GGRF could have paid more or less than the correct amount for goods and services.

Recommendation

The person preparing the check should ensure that the vendor invoice is accurate. The person signing the check should ensure that the check is correct and matches the supporting documents.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

Procedures will be implemented in the third quarter of fiscal year 2003, to insure accuracy of invoices. Vendor invoices will be reviewed and approved by two higher level supervisors prior to payment. The “Audit and Release” functions for accounts payment will be performed by the immediate supervisor if under \$50,000 and by the Accountant if over \$50,000.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 2000-14 – Property and Equipment

Criteria

Items of property and equipment must be properly identified, accounted for and protected to minimize the possibility of physical loss.

Condition

Although there are identification tags on items of property and equipment and there is a fixed asset subsidiary ledger, there is no periodic physical inventory conducted for items of property and equipment.

Cause

Lack of oversight of the internal control function.

Effect

Items of property and equipment could be removed from the GGRF's office without timely detection.

Recommendation

GGRF should conduct a periodic physical inventory of items of property and equipment. The physical inventory should be reconciled to the subsidiary ledger.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

We will be conducting a physical inventory on all Fund property and equipment to be reconciled with subsidiary ledger. This will be completed by the end of fiscal year 2003.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

PRIOR YEAR (1999) FINDINGS – All findings from 1999 are being repeated in their entirety as responses have recently been obtained

Finding No. 1999-1 –Dual Participation

Criteria

Title 4, Chapter VIII, Article 1, §8206, Subsection (c) of the Guam Code Annotated states that, beginning October 1, 1995, the Government of Guam Defined Contribution Retirement System shall be the single retirement program for all new employees whose employment commences on or after that date. No additional new employees may be admitted to the existing defined benefit retirement system.

Condition

In one of the sixty files tested, we noted one person who retired under the defined benefit system, was elected to an official position, and became a participant in the defined contribution system.

Cause

We cannot determine the cause of this condition.

Effect

This practice will result in additional costs to the Government of Guam.

Recommendation

We recommend that Fund personnel obtain a legal opinion as to the propriety of this action.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee Response/Corrective Action Plan

We agree with this audit finding. We will obtain a legal opinion from our counsel to indicate the correct application and propriety of dual participation.

GOVERNMENT OF GUAM RETIREMENT FUND
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Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-2 – Quarterly Withholding Returns

Criteria

Employers are required to file quarterly withholding tax returns by the end of the month following the end of each calendar quarter.

Condition

Quarterly withholding tax returns were not being filed for several years. The quarterly withholding tax returns for fiscal year 1998 were filed in December 2000.

Cause

The responsibility for filing these returns was not clearly assigned to any one individual at the GGRF.

Effect

Failure to file required returns can lead to penalties and interest.

Recommendation

We recommend that one person act as a compliance monitor for all required filings relating to payroll and annuities. There should be a person designated as a backup in case the primary compliance monitor is unable to fulfill the requirements for whatever reason.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee response and corrective action plan

A controller has been hired, and a person has been tasked with the responsibility of ensuring that all required filings are done in a timely manner. A second person has been designated as a backup in case the primary person is unable to fulfill the requirements.

GOVERNMENT OF GUAM RETIREMENT FUND
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Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-3 – Purchased Service Credits

Criteria

Title 4, Chapter VI, Article 1, §8140, Subsection (c) of the Guam Code Annotated states that service credits can be purchased over a period not to exceed five years, upon receipt of a proper application. The payment plan will be supported by a promissory note and will bear interest until final payment is made. Payments can be made through payroll deduction. The member also has the option of making full payment.

Condition

We reviewed the list of active participants with promissory notes, and we could not determine that proper payroll deductions are being made. A subsidiary ledger of promissory note balances is maintained, but was not recorded in the general ledger.

Cause

The cause appears to be a lack of resources in the accounting department.

Effect

An adjusting entry was proposed to place the promissory note balance on the statement of net assets.

Recommendation

The subsidiary ledger of promissory notes receivable should be reconciled with the general ledger balance on a monthly basis.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee Response and Corrective Action Plan

The adjusting entry will be posted and subsidiary ledgers will be reconciled monthly to the general ledger.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-4 – Service Credit Overpayments

Criteria

Title 4, Chapter VI, Article 1, §6.1, Subsection (c) of the Guam Code Annotated states that if a member makes an overpayment for service credits, the member shall be reimbursed for the overpayment within 30 days of recalculation. A statement indicating full payment shall be provided to such member.

Condition

The list of active participants with promissory notes for service credits contains several credit balances, indicating overpayments. We cannot determine if these overpayments were liquidated within the mandated time frame.

Cause

This condition results from not reconciling the subsidiary ledger with the general ledger. The non-reconciliation results from a lack of staffing in the accounting department.

Effect

An adjusting entry was proposed to correct the promissory note balance.

Recommendation

We recommend that accounting department duties be shifted so that one person is assigned responsibility for reconciling the promissory notes with the general ledger. Overpayments should be reimbursed within 30 days.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee Response and Corrective Action Plan

We agree with this audit finding.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-4 – Service Credit Overpayments, continued

A list of all credit balances in service credit notes receivable are currently being reviewed by Members Services Division. Re-computations will be performed due to the decrease in the interest rate in the past and refunds of overpayments will be processed.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-5 – DC Plan Contribution Rate

Criteria

Article 4 Sections 4.1 (Employee Contributions) and 4.2 (Employer Contributions); indicate that mandatory contributions are to be made at the rates indicated at GCA Section 8208 and 8209, respectively. The rate indicated is 5% in both instances.

Condition

We noted an agency that used a rate in excess of 5%. This departure from the statute was not detected by the agency or the fund.

Cause

Lack of a procedure to check the contribution rates.

Effect

Excess deferrals and contributions have been made on behalf of the employees of this agency.

Recommendation

Implement control totals for wages, deferrals and agency unfunded liability contributions prior to processing the agency reports. Use simple mathematical tests to determine if the amounts appearing in the reports comply with the statute.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee Response and Corrective Action Plan

We agree with this audit finding. Accounting staff will test grand totals on source documents provided by agencies to determine if the contribution rates are 5% employee and 5% employer. In cases, where the percentages do not come out to 5% further review by individual employee will be necessary. Agencies will be notified in writing that computations are in error and credits will be initiated for overpayments.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-6 – DC Plan General Ledger Details

Criteria

General ledger accounts should be routinely reconciled.

Condition

With the exception of cash, earnings, change in value and administrative fees, virtually all general ledger accounts are not routinely reconciled to underlying records and source documents.

Cause

Lack of formal accounting policies and procedures.

Effect

Financial reporting becomes unreliable.

Recommendation

Establish formal accounting policies that include the reconciliation of significant general ledger accounts.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee Response and Corrective Action Plan

We agree with this audit finding.

Monthly/Quarterly reconciliations are being performed to tie transactions per G/L to FASCORP statements.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-7 – DC Plan Cash Accounts

Criteria

All cash in GGRF DC accounts, with the exception of interest income net of bank charges, are held in trust.

Condition

Records are not maintained in a manner that makes it easy to determine for whom cash balances are maintained at any given time.

Cause

Unknown

Effect

Funds may be disbursed in a manner inconsistent with the intended purpose or may not be disbursed at all.

Recommendation

There should be an internal audit of cash balances to determine if any funds have been incorrectly remitted or not remitted at all.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee Response and Corrective Action Plan

We agree with this audit finding.

Accounting staff will make it part of the bank reconciliation procedure to identify and categorize month ending cash balances. Cash balances will be identified and categorized as unfunded liability, rejects, pending 5% employee or 5% employer contribution, interest earned, etc.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-8 – Annuity Worksheet

Criteria

Title 4, Chapter 8, Article 1, §8140, subsection (c) of the Guam Code Annotated states that the Chairman of the Board of Trustees shall be in charge of the administration of the detailed affairs of the Fund. The Chairman shall keep all books, records, files and accounts of the Fund and receive all applications for annuities, benefits and refunds. This includes signing final annuity worksheets. The annuity worksheet includes a space for the Chairman to record his signature.

Condition

In 37 of 60 files of retirees tested, the Chairman did not sign the annuity worksheets.

Cause

The Fund makes a provisional calculation of the annuity in order to commence the annuity in a timely manner. The provisional calculation is usually reviewed and approved some time later. The lack of a signature on the files tested was an oversight.

Effect

Without the Chairman's review and signing of the form, there is a possibility that annuities could be unauthorized or improperly calculated.

Recommendation

The Chairman should sign all annuity worksheets or the Board should consider assigning final review of the worksheets to another individual.

Prior Year Status

This finding was reported in fiscal year 1999.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-8 – Annuity Worksheet, continued

Auditee Response and Corrective Action Plan

We agree with this audit finding.

Currently the Fund processes retirement applicants on an estimated annuity worksheet in order to place them on Payroll on a timely manner. When the file is finalized a full review is conducted whereby all signatories, including the chairman, are required.

To ensure that this condition does not occur, the Fund now requires all signatories to be placed on estimated worksheets as well as finalized worksheets. The Fund will codify procedures which identify the policy and signatories required for processing retirees

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-9 – Service Credit

Criteria

Title 4, Chapter 3, Article 1, §.8114 Subsection (c) of the Guam Code Annotated states that in computing credited service, twelve or more days of service in any month shall constitute a month of service, service between six and twelve days during any month shall constitute one-half month of service. Service of less than six days during any month shall be disregarded. Not more than one month of service shall be creditable on account of service rendered during any month and not more than one year service shall be creditable on account of service rendered during any year.

Condition

In three of the sixty files tested, the service factor used was not properly calculated based on the formula.

Cause

This condition appears to be the result of not having a standard formula in the system that is capable of applying the basic formula to the service history. The calculations are presently done manually.

Effect

The final computation of annuities may not be correct.

Recommendation

The system should be programmed so that mathematical errors in annuity computations are eliminated. There should be a documented review of the annuity calculation by a supervisory level person.

Prior Year Status

This finding was reported in fiscal year 1999.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-9 – Service Credit, continued

Auditee Response and Corrective Action Plan

We agree with this audit finding.

To ensure that this condition does not occur, we require all computations and calculations to be reviewed by staff and specialists at the supervisory level as well as the administrator. We will work with our computer consultants to create the automation of service computations in order to implement a workable program for the system.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-10 – File Checklist and Documentation

Criteria

The Fund adopted policies and procedures that require a checklist to be completed for each new retiree and maintained in the retiree's file.

Condition

In our testing of sixty retiree files, we noted 4 instances where beneficiary designations were not properly notarized. We also noted 24 instances where individual contribution ledgers are not on file.

Cause

This condition seems to be caused by a reduction in staffing in the records section. There is only one person involved in filing and accessing more than five thousand retiree files.

Effect

There can be several effects from this condition, including disputes as to proper beneficiaries, calculation of annuities, and date of retirement.

Recommendation

The records section staffing should be increased. There may be opportunities to shift responsibilities of staff in other sections so they can take partial responsibility for the records section.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee Response and Corrective Action Plan

We agree with this audit finding.

Because the Fund has experienced this problem for numerous years as a result of staffing shortages (i.e. having placed heavy demands); We will re-examine the staffing pattern in FY04 in order to place additional personnel.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-11 – Annuity and Gross Pay Computations

Criteria

Source documents should contain sufficient information to allow for proper summarization, recording in the books of original entry, and presentation in the financial statements.

Condition

In one of the sixty retiree files tested, the annuity worksheet shows a calculated amount that differs from the amount actually being paid to the retiree.

Cause

The subsidiary ledgers maintained by the benefits section are not reconciled to the general ledger maintained by the accounting department.

Effect

We are unable to determine that the total amount reflected as annuities is accurate.

Recommendation

The annuity disbursements should be summarized and reconciled to the general ledger on a monthly basis.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee Response and Corrective Action Plan

We agree with this audit finding.

This appears to be an isolated incident. Apparently there has been an error in the calculation of salary during the transposition of data. To ensure that this condition does not occur, we now require all computations and calculations to be reviewed by staff and specialists at the supervisory level as well as administrator.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-12 – Remittance of Contributions

Criteria

Established accounting policies and procedures should be in place to provide reasonable assurance that transactions are properly summarized and recorded.

Condition

GGRF transmitted contributions for a single payroll period twice.

Cause

Lack of adequate internal controls.

Effect

Participants have been credited with contributions for which they were not entitled.

Recommendation

Have the plan administrator install program controls that will “flag” multiple contributions for the same pay period for a participant and generate a report identifying this condition. These unusual postings can then be investigated and verified.

Include amounts and dates on the contribution transmittal log and reconcile these amounts to the contributions reflected in the reports issued by the plan administrator.

Article 4 Section 4.7 provides the fund with the authority to make the required adjustments.

Prior Year Status

This finding was reported in fiscal year 1999.

Finding No. 1999-12 – Remittance of Contributions, continued

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Auditee Response and Corrective Action Plan

We agree with this audit finding.

Procedures have been established to ensure that duplicate file submissions and funds transfers do not occur. Transmittal logs are being maintained for each agency to show all pay periods for the fiscal year and which pay periods have already been submitted. FASCORP has initiated an edit feature which indicates whether a pay period and contribution amount has already been received.

The duplicated contribution payment has been recovered.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-13 – Contributions Received Late

Criteria

Article 4 Section 4.5 indicates that contributions shall be paid in cash to the Fund within five working days of the payroll issuance date for the salary related to such contributions. Failure to make timely payments by any employer shall cause the Board to invoke the penalties and conditions of GCA Section 8209.

Condition

Contributions were remitted in excess of three months after the payroll period end date.

Cause

The remittance from the agency was delayed in certain instances.

Effect

There is the potential for lost earnings on participant contributions.

Recommendation

In the event that GGRF is responsible for a delay in remitting contributions, the plan document could include a provision to impose a penalty. These amounts could then be allocated to the respective participants to offset potential lost income.

Prior Year Status

This finding was reported in fiscal year 1999.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-13 – Contributions Received Late, continued

Auditee Response and Corrective Action Plan

The Fund has obtained the services of out-side counsel to pursue an agency that has not made payment on DC contributions. Currently, the Fund will charge an agency that is late in remitting its contributions after 5 working days from release of the payroll. Penalties of 1% of contribution are charged as a late charge. In the event that a material loss has occurred to a participant's account, the Fund will have the loss determined by the third party administrator. Losses that are incurred will then be billed to the respective agency, to make whole the participant's account. In addition, the Fund will present to the Investment Committee for Board approval of valid interest rate to charge agencies.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-14 – Investment Transfers

Criteria

Transfers between investment options should have no effect on total investments reflected in the plan summary.

Condition

Amounts reflected as transfers in and out (between investment options) in the investment grand totals report prepared by the plan administrator were not equal amounts.

Cause

Unknown

Effect

Investment balances may be misstated.

Recommendation

Obtain clarification from the plan administrator on this issue.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee Response and Corrective Action Plan

The differences in the Transfers In and Transfers Out are due to timing on the part of FASCORP. Investment allocation changes that occur on the last day of the quarter usually result in amounts not being allocated immediately into the various fund types. This difference is held temporarily and is usually allocated the next day. The amount of the difference is reflected on quarterly reports as transfer-in-transit.

Great West monitors activities on a daily basis in an effort to minimize the timing issues, however, there will always be some type of difference.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-15 – Forfeiture Reconciliation

Criteria

The investment grand total report and the forfeiture account summary, both prepared by the plan administrator, are designed so that forfeiture amounts on these two documents will be equal in amount.

Condition

Forfeitures per the investment grand totals report and the forfeiture account summary, as prepared by the plan administrator, did not reflect the same amounts.

Cause

Unknown

Effect

Investment balances may be misstated.

Recommendation

Obtain clarification from the plan administrator on this issue.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee Response and Corrective Action Plan

The differences on the account summary when compared to other sections of the report are essentially due to timing issues. Each section such as the forfeiture summary is run separately from the plan summary. The Plan summary is the last report to be generated. In the time the other sections ran, transactions/distributions/transfers could have completed which will change the numbers in the end. Most differences will be netting out to zero on the next quarter.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-16 – Verification of Annuitants

Criteria

Benefit payments should be made only to those entitled to receive benefits.

Condition

GGRF does not have procedures in place to identify persons no longer entitled to receive benefits.

Cause

There is no policies and procedures manual.

Effect

GGRF has overpaid retirees and their beneficiaries. In one case, the overpayment exceeded \$100,000.

Recommendation

We have two recommendations. First, GGRF should send confirmation letters to all off-island retirees or beneficiaries once a year to determine if they are alive. The confirmation letters should give the recipients adequate time to respond, with the penalty for non-response being the withholding of annuity checks.

Second, GGRF personnel should randomly select canceled checks throughout the year to compare the signature on the back of the check with signatures in the GGRF's files.

Prior Year Status

This finding was reported in fiscal year 1999.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-16 – Verification of Annuitants, continued

Auditee response and corrective action plan

We agree with this finding.

We agree with both procedures and recommendations.

In addition to the recommendations provided by the auditor, we are awaiting for the authorization of use for the Social Security Index. This service will provide information of individuals who may have expired on the date of inquiry. Upon use of authorization of the SS Index, we will create policy and procedures to address this finding.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-17 – Segregation of Duties

Criteria

All organizations should ensure that there is a proper segregation of duties regarding cash receipts. Cash receipts should be accurately recorded.

Condition

All incoming mail goes to the director's office. A list of cash received is prepared and then forwarded to the accounting department for preparation of a cash receipt, deposit slip and for delivery to the bank. The list prepared in the director's office is not compared with the cash receipts or deposit slip after the deposit has been made.

Cause

Unknown.

Effect

There is a possibility that not all cash (checks) received in the mail actually make it to the bank.

Recommendation

The current procedures should not be changed. There should be one procedure added; however, and that would be for the person preparing the initial list to later compare the list to the cash receipts and to the deposit slip.

Prior Year Status

This finding was reported in fiscal year 1999.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-17 – Segregation of Duties, continued

Auditee response and corrective action plan

We agree with this finding.

Action taken at this time has the Director's office endorsing all checks with Fund's stamp, prior to turning it over to accounting staff. Responsibility of cross checking incoming receipts is currently handled by section supervisor. It should be noted that the Fund has always made it a policy not accept cash for payments, the only exception being the \$2.00 charge for re- issuance of 1099-R. To insure receipt of cash, no re-issuance will be made without copy of cash receipt for such item.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-18 – Reconciliation between DB and DC Plan

Criteria

Transactions should be summarized, recorded and processed properly and accurately.

Condition

When GGRF decided to split out the general ledger for the defined contribution plan, an unreconciled difference arose. This unreconciled difference was \$435,727 at September 30, 1998.

Cause

When the defined contribution plan began, transactions in the general ledger were not properly identified as defined contribution transactions.

Effect

This unreconciled difference causes the audit opinion to be qualified.

Recommendation

We believe that there is sufficient information on file to determine the cause of the unreconciled difference and to make the proper adjustments. It is only a matter of committing the resources at the GGRF to the project.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee response and corrective action plan

We agree with this finding. The Fund is currently working on creating a new General Ledger on its computer system. New procedures implemented require full documentation backup for entries made into the General Ledger. Entries are sequentially numbered and provided by one individual. In addition, all entries, most first be reviewed by supervisor, and then approved by controller, before entry into the General Ledger. This procedure will improve the ability to provide proper documentation of entries made.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-19 – Collectibility of Receivables

Criteria

Financial statement balances for accounts receivable should reflect the amount considered collectible. Accounts receivable should be properly and accurately recorded.

Condition

There are several general ledger receivable accounts for which detailed subsidiary ledgers are not available. Further, GGRF has not evaluated the collectibility of its receivables or established an allowance for doubtful receivables.

Cause

Unknown.

Effect

Financial statement balances for receivables were overstated. An adjustment was proposed to establish an allowance of more than \$8 million for GMHA.

Recommendation

Receivables should be evaluated periodically for collectibility. Receivables not considered collectible should either be written off or covered by an allowance for doubtful accounts. Subsidiary ledgers should support general ledger receivable accounts.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee response and corrective action plan

We disagree with this finding.

The Fund does not feel it has the legal authority to write off any receivable due to contributions. All contributions will eventually be paid, as members will either want to refund or retire from the system, thus forcing an agency to make payment.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-20 – Depreciation expense

Criteria

Depreciation of items of property and equipment should be recorded in a systematic and rational manner over the useful lives of the items.

Condition

GGRF utilizes the straight-line method to record depreciation. In practice, GGRF depreciates acquisitions using the straight-line method in the year of acquisition. The remaining book value is then depreciated straight-line over the remaining number of full years. This results in items being depreciated over less than the full useful life.

As an example, a five year property purchased on June 1 will be depreciated for four months in that fiscal year, using a sixty month life. In the next fiscal year, the book value is divided by four. In the second fiscal year, the book value is divided by three, and so on. This asset would then be fully depreciated four years and four months after acquisition.

Cause

Unknown

Effect

Depreciation expense and accumulated depreciation are overstated prior to the end of an item's useful life.

Recommendation

We recommend that depreciation expense be recorded using a simple straight-line method based on the number of months of useful life.

Prior Year Status

This finding was reported in fiscal year 1999.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-20 – Depreciation expense, continued

Auditee response and corrective action plan

Corrective action has been taken in fiscal year 2003 to correct this finding.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2000 and 1999

Finding No. 1999-21 – Required Vacations

Criteria

Mandatory vacations should be required for individuals in key control positions.

Condition

The Government of Guam Retirement Fund does not require employees to take vacations or to have other employees assume the vacationing employee's duties while on vacation.

Cause

GGRF staff were not aware of this internal control feature.

Effect

This situation creates the possibility that a dishonest employee could perpetrate a fraud and may be able to conceal the fraud.

Recommendation

Mandatory vacations should be implemented for individuals in key control positions. While a person is on vacation, a different employee who has been cross-trained to perform those functions should perform the vacationing person's job functions.

Prior Year Status

This finding was reported in fiscal year 1999.

Auditee response and corrective action plan

We agree with this finding.

There is no policy in place that requires staff to take leave if they do not wish to. Management will henceforth require the scheduling of leave, dependent on the availability of hours and individual employee might have for leave taking.