BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Government of Guam Retirement Fund:

We have audited the accompanying financial statements of the Government of Guam Retirement Fund, as of and for the fiscal years ended September 30, 2006 and 2005, and have issued our report thereon dated February 15, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Government of Guam Retirement Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government of Guam Retirement Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hengi Plaza, Suite 104, 278 South Marine Corps Drive Tamuning, Guam 96913 Phone: (671) 646-5044 • Fax: (671) 646-5045
http://www.guamcpa.com

We noted certain matters that we reported to management of Government of Guam Retirement Fund in a separate letter dated February 15, 2007.

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

Burger & Comer, P.C.

Tamuning, Guam
February 15, 2007

CURRENT YEAR FINDINGS

NONE.

PRIOR YEAR FINDINGS BEING REPEATED

Finding No. 2002-9 Allocation of Forfeitures

Criteria

Title 4, Chapter 8, Article 2, Section 8210 provides that non-vested employer contributions be credited to a suspense account in the event of a participant's termination. The suspense account is to be maintained for a period of five years following the termination of the member contemplating a return to employment and reinstatement of the forfeited amount. In the event that the forfeited amount is not reinstated, the amount attributable to such member will be released and used to offset future employer contributions in an amount proportionate to the respective employer's contributions in the preceding five years.

Condition

The plan is in its ninth year of existence. It is uncertain if the mechanism is in place to allocate forfeited amounts to the respective employer's future contributions.

Cause

This issue has yet to be encountered and therefore may not have been addressed.

Effect

Proper allocation of the forfeited amounts may prove difficult.

Recommendation

Ensure mechanism to allocate forfeitures is in place and will operate properly.

Auditee Response/Corrective Action Plan – 2006

Since the Fund was awaiting the outcome of Legislative Bill 293 relative to "the use of forfeitures for startup costs and administrative expenses" a mechanism was not established. However, with the passage of Public Law 28-141 and the subsequent reimbursement of start-up costs and administrative expenses to the Defined Benefit Plan during FY 2007, the Director has tasked the Controller with the responsibility of developing a mechanism to facilitate allocation of the remaining forfeitures to employer's future contributions in accordance with Title 4, Chapter 8, Article 2, Section 8210.