

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, 2001 and 2000, and have issued our report thereon dated June 14, 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 2001-1, 2001-3 and 2001-16.

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 2001-2, 2001-4 to 2001-15, 2001-17 to 2001-24.

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 2001-5, 2001-10, 2001-11, 2001-17 and 2001-18 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 14, 2003

GOVERNMENT OF GUAM
RETIREMENT FUND
(A Public Corporation)

Schedule of Findings

September 30, 2001 and 2000

CURRENT YEAR (2001) FINDINGS

Finding No. 2001-1 – Verification of Disability Annuitants

Criteria

4GCA, Chapter 8, Article 1, §8127(a) states, "...If any examination indicates that the annuitant is no longer physically or mentally incapacitated for service, or that he is engaged or is able to engage in a gainful occupation, payment of the disability annuity by the Fund shall be discontinued..."

Condition

In one of the 75 files tested, a disability annuitant returned to work on October 1, 1999 and continued to receive a disability annuity during the entire term of his employment.

Cause

This appears to be caused by a lack of verification and monitoring of disability annuitants by Fund personnel, override of the system of internal controls, and because the annuitant was closely related to a highly placed elected official.

Effect

This person received in excess of \$90,000 in disability annuities that should have been discontinued.

Recommendation

The Fund should pursue collection of the disability annuity from the annuitant.

Auditee Response/Corrective Action Plan

We agree with this audit finding.

To ensure qualified applicants, we require the examination of three physicians and must be reviewed by the Members & Benefits Committee which is composed of Board Members, employees of the Fund, and the Fund's Medical Consultant. Upon approval of a disability annuity, the Fund requires the re-examination of the annuitant once (1) for the first five(5) years, and once(1) every three(3) years thereafter. We will send a certified letter regarding his re-examination appointment in order to determine the status of his current disability. Upon receipt we will schedule an assigned doctor to certify his disability.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2001 and 2000

Finding No. 2001-1 – Verification of Disability Annuitants, continued

We will seek legal counsel's opinion on the application of Subsection 8127. 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 disposition.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2001 and 2000

Finding No. 2001-2 – Retiree File Documentation

Criteria

4GCA, Chapter 8, Article 1 governs the defined benefit plan and sets forth the eligibility requirements for retirement benefits. These requirements include levels of approval of annuity worksheets, required documentation to prove eligibility, and computation of years of service.

Condition

In four of the 75 files tested, there was no indication of review or board approval of the annuity worksheet. In one of the 75 files tested, there was an incorrect rounding of a period of service. In one of the 75 files tested, there was no marriage certificate on file. In four of the 75 files tested, there was no birth certificate in the file for the retiree.

Cause

These file deficiencies could be the result of the lack of an indexing system for retiree files, thus making it difficult to locate documents in each file.

Effect

The Fund is at risk of paying incorrect annuity amounts and paying beneficiaries who are not entitled to receive benefits.

Recommendation

Retiree files should be organized by sections identified by standard required documents (e.g application, annuity worksheet, service records, education records, etc.). There should be proper review and approval indicated on all annuity worksheets. Files with missing documents should be segregated and appropriate follow-up should occur until the files are complete.

Auditee response/Corrective Action Plan

We agree with this audit finding.

We have assigned direct personnel dedicated to the processing of retiree applicants in order to ensure all required (standard) documentation is on file and assigned specific personnel to follow-up on any missing documentation or on any other pertinent outstanding payments, documentation, or calculations.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2001 and 2000

Finding No. 2001-3 – Miscalculation of Retirement Benefit

Criteria

Government of Guam employees must elect whether to become members of the GGRF upon employment. There is no provision for changing this election. Members who wish to retire must submit an application to retire. The submission and acceptance of this application dictates the date when the retirement annuity may commence. Retroactive retirement benefits are not permitted.

Condition

In one of the 75 files tested, we noted the following:

An elected official, who had retired in 1989, took office in January 1995 and chose to be a member of the GGRF. In November 1995 this official chose not to be a member and was refunded his contributions on November 20, 1995.

This person was re-elected in November 1998 and took office in January 1999. In October 1999 this official submitted documents to the GGRF to retire effective December 31, 1997. The annuity calculation was revised to be based on the salaries for 1995 to 1997. Retirement effective December 31, 1997 would mean that this official had no legal authority to serve in the elected position from January 1, 1998 until re-election in November 1998.

In order for this elected official to receive credit for service for 1995 to 1997, the official would have to be a contributing member for those years. The retiree should suspend the annuity during those years. This person did not suspend the annuity during those years. The government did not remit employer contributions for those years. The member would have to repay all annuities received for those years and would have to pay the member's contribution for those years.

In the retiree's file, there is a calculation worksheet to show the increased annuity that would be due to the official based on the revised calculation as well as the amounts the official would have to repay as a member from 1995 to 1997.

The calculation worksheet is in error as it failed to exclude the return of the annuity actually received by the official. This resulted in an understatement of the amount owed to GGRF by the official by approximately \$80,000.

GOVERNMENT OF GUAM RETIREMENT FUND
(a public corporation)

Schedule of Findings, continued

September 30, 2001 and 2000

Finding No. 2001-3 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-1.

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, 2001 and 2000

Finding No. 2001-3 – Miscalculation of Retirement Benefit, continued

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, 2001 and 2000

Finding No. 2001-4 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-2.

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, 2001 and 2000

Finding No. 2001-5 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-3.

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. 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, 2001 and 2000

Finding No. 2001-6 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-4.

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, 2001 and 2000

Finding No. 2001-7 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-5.

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, 2001 and 2000

Finding No. 2001-8 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-6.

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, 2001 and 2000

Finding No. 2001-9 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-8.

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, 2001 and 2000

Finding No. 2001-10 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-9.

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
(a public corporation)

Schedule of Findings, continued

September 30, 2001 and 2000

Finding No. 2001-11 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-10.

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
(a public corporation)

Schedule of Findings, continued

September 30, 2001 and 2000

Finding No. 2001-12 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-11.

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
(a public corporation)

Schedule of Findings, continued

September 30, 2001 and 2000

Finding No. 2001-13 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-12.

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, 2001 and 2000

Finding No. 2001-14 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-13.

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, 2001 and 2000

Finding No. 2001-15 – 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.

Prior Year Status

This finding was reported in fiscal year 2000 as Finding 2000-14.

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, 2001 and 2000

Finding No. 2001-16 –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 years 2000 and 1999 as Finding 1999-1.

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
(a public corporation)

Schedule of Findings, continued

September 30, 2001 and 2000

Finding No. 2001-17 – 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 years 2000 and 1999 as Finding 1999-6.

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, 2001 and 2000

Finding No. 2001-18 – 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 years 2000 and 1999 as Finding 1999-7.

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, 2001 and 2000

Finding No. 2001-19 – 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 years 2000 and 1999 as Finding 1999-15.

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, 2001 and 2000

Finding No. 2001-20 – 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 years 2000 and 1999 as Finding 1999-16.

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, 2001 and 2000

Finding No. 2001-21 – 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 years 2000 and 1999 as Finding 1999-17.

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, 2001 and 2000

Finding No. 2001-22 – 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 years 2000 and 1999 as Finding 1999-19.

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, 2001 and 2000

Finding No. 2001-23 – 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 years 2000 and 1999 as Finding 1999-20.

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, 2001 and 2000

Finding No. 2001-24 – 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 years 2000 and 1999 as Finding 1999-21.

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.