



OFFICE OF THE PUBLIC AUDITOR
Government of Guam Retirement Fund
FY 2003 Highlights

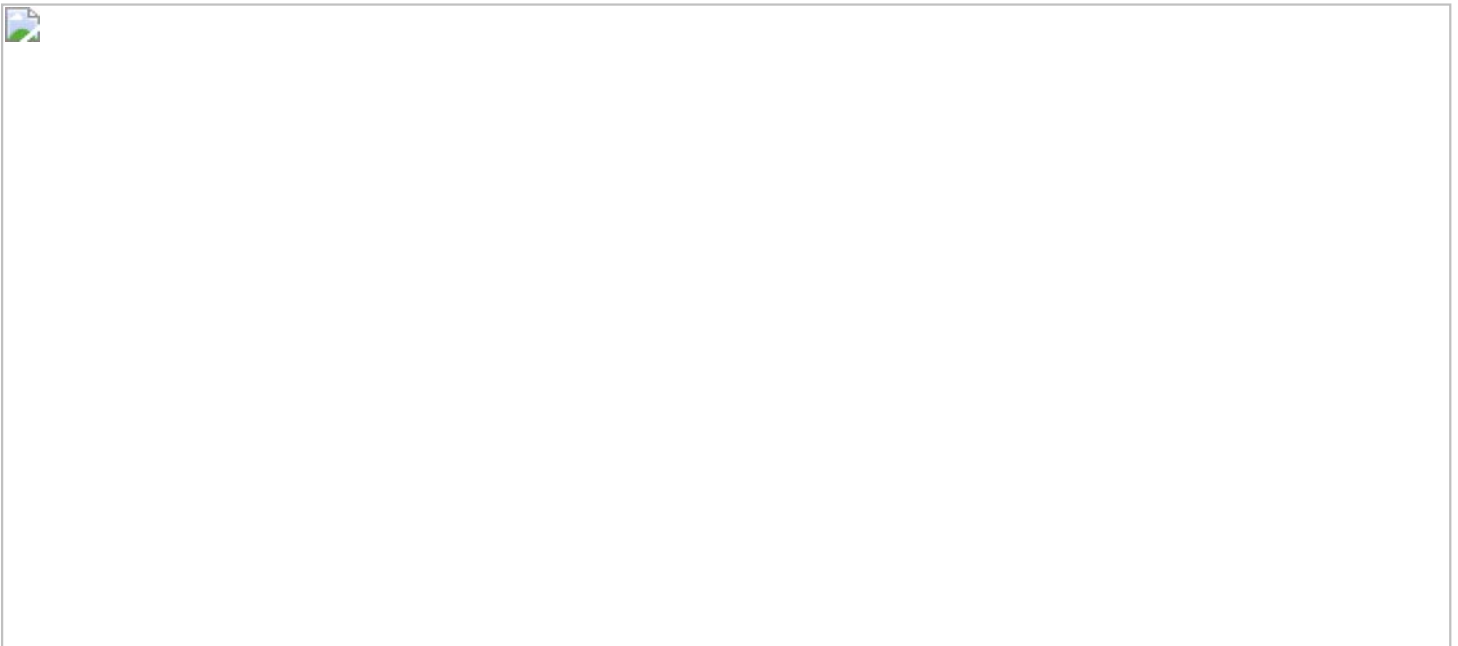
December 16, 2004

The FY 2003 financial audit of the Government of Guam Retirement Fund (Fund), conducted by independent auditors Burger and Comer, showed investment income of \$126.5 million, a significant increase of \$135.3 million compared to a loss of \$8.8 million in FY 2002. This increase helped the Fund to realize an increase in plan net assets of \$52.7 million. The Fund's investment portfolio increased by \$28.2 million, from \$1.19 billion in FY 2002 to \$1.22 billion in FY 2003. These increases were largely attributable to the Fund's focus in shifting to favorable equities markets.

FY 2003 additions to the Fund were \$225 million, comprised of investment income of \$126.5 million and employer and employee contributions of \$68.9 and \$29.6 million, respectively. This is an increase of \$132.6 million compared to \$92.4 million in FY 2002.

The Fund added 201 new annuitants in FY 2003, which contributed to a decline in active contributing participants and increase in annuity benefits paid out. Both employer and employee contributions decreased slightly by \$2.7 million to \$98.5 million while benefits paid out have increased by \$4.2 million from \$146.9 million in FY 2002 to \$151.1 million in FY 2003. The Fund also saw an over twofold increase in interest paid for refunded contributions – from \$231,000 in FY 2002 to \$547,000 in FY 2003.

Since FY 2001, investment income was not able to pay benefits and principal had to be liquidated to cover benefit payments. Although FY 2003 netted a \$52.7 million increase in net assets, the Fund was still compelled to liquidate \$80.5 million in assets to pay principal resulting in fewer income-earning assets. The chart below shows the Fund's investment income/contributions and benefit payments for the last five years.



Overall, Fund receivables decreased by \$19.8 million, from \$223.3 million in FY 2002 to \$203.5 million in FY 2003. Included in the Fund receivables are Supplemental/COLA benefits receivables of \$103.7 million, which represent amounts owed to the Fund from the General Fund for prior years' benefits. In FY 2003, the Fund had allocated the \$9 million paid for Supplemental benefits in FY 2003 to "Other receivables" instead. In FY 2003, the Fund had, in essence, loaned \$9 million in Supplemental benefits on behalf of government agencies until December 2002 when a court order prohibited the Fund from advancing the payments until funds were duly appropriated to the agencies' for this obligation. The agencies had paid back \$4.3 million in FY 2004, however, certain retirees are still owed \$8.1 million in Supplemental benefits from their respective agencies that have failed to pay the benefits after December 2002. For example, the Department of Education owes its retirees \$2.2 million in FY 2003 Supplemental benefits.

Another complication in the Fund's receivables is the outstanding receivables for both employer and employee contributions of the Department of Education and the Guam Memorial Hospital. Of the \$28.4 million total receivables in this category, DOE owes \$18.1 million and GMH owes \$8.6 million. GMH still owes \$6.3 million on a 1998 promissory note of which the Fund established a reserve in FY 2000 of \$8 million. In FY 2003, GMH paid \$553,000 towards the repayment of this note. The Fund recognizes GMH's sporadic payments as recoveries to the bad debt reserve.

Administrative and general expenses increased to \$4 million, up \$332,000 from \$3.7 million in FY 2002. Of these amounts, \$3 million was incurred by the Defined Benefit (DB) plan. The Defined Contribution (DC) plan incurred \$1 million in expenses including \$697,000 in administrative fees. The Fund incurred \$2 million in personnel costs for its 49 employees which is a slight increase of \$59,000 from FY 2002 to fund the same number of employees.

The Fund's FY 2003 report on compliance and internal controls had one current year finding and 13 repeat findings from prior years. The Fund disagreed with Finding 2003-1, which cites the Fund for paying interest only on contributions actually received by the Fund instead of contributions that should have been received. The Fund has adopted policy not to calculate this interest unless all contributions are received from the employing agency.

One of the repeat findings, Finding 2001-20, indicated that the Fund did not have procedures to identify persons no longer entitled to receive retirement benefits. For example, a person could be receiving the annuities for a retiree who has died. In FY 2003, these benefit overpayments grew to over \$700,000. The Fund responded that update forms have been sent to all annuitants to identify those who are truly entitled to receive retirement annuities.

The 13 repeat findings have been addressed during FY 2004. The Fund has implemented software to compute average annual salaries and hired additional staff to assist in annuity finalizations and filing, developed policies for fee recoveries and forfeiture allocation, and assigned detail processing to the DC Plan administrator for access control. Additionally, the Fund has completed a physical inventory of property and instituted a formal employee leave plan.

See Management's Discussion and Analysis for further details.