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December 19, 2024

To the Board of Trustees, the Investment Committee,
and Management
General Retirement System of the City of Detroit

We have audited the financial statements of the General Retirement System of the City of Detroit (the "System") as of and for the year ended June 30, 2024 and have issued our report thereon dated December 19, 2024. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section III - Other Recommendations and Related Information

Sections I and II include information that we are required to communicate to those individuals charged with governance of the System. Section I communicates deficiencies we observed in the System's internal control that we believe are material weaknesses and a significant deficiency. Section II communicates significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process.

Section III presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the System in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the System's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the board of trustees, the investment committee, and management of the System and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

Michelle Watterworth

Michelle M. Watterworth, CPA

Spencer Tawa

Spencer Tawa, CPA

Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the System as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis.

We consider the following deficiencies in the System’s internal control to be material weaknesses:

Controls Over the System’s Census Data and Actuarial Valuation Process (Repeat Finding)

Background: The System has to accumulate and transmit voluminous member data to the actuary. The data used in the System’s June 30, 2024 financial statements are as of June 30, 2023, which was accumulated and transmitted to the actuary from the old ERP system. Beginning with the June 30, 2024 data, the data will come from the new system, IntelliPlan.

The System accumulates member data based on information from the City of Detroit, Michigan (the “City”), as well as data the System independently obtains. The System relies on data it extracts from the City of Detroit, Michigan’s databases primarily for active and deferred members. The System is responsible for data on retirees, as it will obtain additional information when a member commences retirement.

The actuary then uses this information to prepare the actuarial valuation, which impacts the calculation of the actuarially determined contribution (ADC) and the actuarial accrued liability (AAL) for funding purposes and, under GASB Statement No. 67, impacts the total pension liability disclosed in the System’s financial statements.

It is key that the information provided to the actuary is complete and accurate in order to ensure that the funding levels, AAL, and disclosures under GASB Statement No. 67, including the total pension liability, also are accurate.

Issues and recommendations: The System has had issues with the accuracy of the member data for many years. We continue to identify a number of errors in the census data. The more significant errors are as follows:

- Hybrid pensionable salary - During our testing procedures, we noted differences between actual hybrid pensionable salary for a sample of actives in Component I. The differences ranged from approximately $1,000 to $23,000, with most of our sample having a difference of 9 percent (the System reported higher salary than actual to the actuary). While the System relies on wage information from the City, the differences we noted were due to how the System captured and reported the salary information to the actuary. We recommend the System perform procedures to validate that the proper salary information is being captured from the City and ultimately being reported to the actuary.

- We noted several different types of errors with persons either improperly included in census or improperly excluded from the census data, although the vast majority of the errors of this type related to people (actives, deferred and retirees) being improperly excluded from the census data. As an example, for Components II and I, we noted there were members receiving a pension benefit that were not included in the census data and members that should have been included as vested in the data that had inappropriately fallen off the listings in the current year. We recommend the System implement procedures and controls to ensure completeness of the data being transmitted to the actuary.

- We continue to note inaccuracies with the average final compensation (AFC) being used in the calculation of frozen accrued benefits (Component II only). Based on our procedures, it was noted that there was great variability in the discrepancies between reported AFC and actual, which ranged from an AFC that was 21 percent higher than it should have been to 110 percent lower. Reporting inaccurate AFC could lead to a potential misstatement of the plan's total pension liability. Based on follow-up with the System, the discrepancies in the data are not clear. We recommend the System perform a comprehensive review to determine how to pull the most accurate AFC information to provide to the actuary.

Given our concerns about the potential impact of these errors on the accuracy of the calculation of the total pension liability (TPL), the System's actuary performed additional testing that targeted testing the accuracy of not only the AFC, but the totality of the census data used in calculating the TPL. That testing, based on the sample utilized by the actuary, provided substantiation that a load was not required to adjust the data.

The System is in the process of implementing a new information technology system; during that process, some data has gone through additional validation, which may result in additional census corrections in subsequent years. That said, we continue to encourage the System to put in place additional controls to further validate the census information each year prior to sending it to the actuary to ensure the data utilized in the valuations is as accurate as possible. Those controls that the System puts in place should be documented, including the performance of any analytics and any follow up done to validate and correct the data.

Controls Over the System's Information Technology Processes (Repeat Finding)

The System has complex information technology that integrates with the City of Detroit, Michigan's various payroll databases. The System's IT department is independent of the City and the System's other departments. The security provided by the IT system is important to the validity and the accuracy of the data maintained, including the census information provided to the actuary. The System has been in the process of modifying the information technology system. For the System's financial statements for the fiscal year ended June 30, 2024, the data submitted to the actuary was from the old ERP system. Beginning next year, the data will come from the new system, IntelliPlan, which has already begun to be used for benefit payment calculations.

Based on our procedures, we identified the following related to the IT system:

- User access reviews (all systems) - No formal user access reviews are being performed. We recommend formal user access reviews as these are a tool to verify that personnel have the correct access level depending on the role within the organization. If users have incorrect permissions, it could lead to unintended changes, including to personnel profiles, unknown risk, and inappropriate system access.

- Intrusion detection - A formal incident response plan and disaster recovery plan have not been documented. In the event of an incident or disaster that impacts availability of IT resources, DRS may not have a clear plan on restoring operations.

- Shared administrator account for the active directory - The administrator account for the active directory is shared between multiple personnel. This will mean that it is not possible to track who changes were performed by. Additionally, it will be difficult to track and restrict user access.

- Monitoring of administrator activity (all systems) - There is also not a process to proactively monitor administrator activity. As a result, an inadvertent mistake or malicious action made by an administrator could go undetected. In addition, without this monitoring, given the shared administrator account, it is possible for changes to be made without the knowledge of management.

- Old IT system used for census data - As mentioned above, this is the last year the census data will be submitted to the actuary from the old IT system. Concerns with the prior system include inadequate segregation of duties and lack of monitoring of master file changes. Segregation of duty controls provide a separation of users with access to program source code and users with the ability to make or implement changes into the production environment. The ability to make or implement program source code changes should be limited to individuals who cannot access and edit source code. The lack of this control could result in inaccurate or unauthorized changes. Additionally, it is recommended to implement processes to ensure that master file changes are documented, authorized, and reviewed. The lack of this documentation could result in unauthorized and undocumented changes that go undetected by the System.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the System's internal control to be a significant deficiency:

Controls Over Voluntary Contribution Reporting

After year end, as a result of our audit procedures, the System realized the information the City's payroll department sends it each pay period, with the breakdown of the voluntary contributions to Component I, was incorrect. While the amount in total was proper, as it matched the dollar amount that the City was sending to the System, the breakdown between how much was related to the Police & Fire (P&F) and the General Retirement System (GRS) was incorrect. The City had inaccurately coded those voluntary contributions from Police & Fire members as contributions from general system employees. When this error was identified during our audit procedures, the System performed procedures to determine the amount of the error on a cumulative basis. The cumulative error in voluntary contributions coded to GRS that should have been coded to the P&F System is approximately $3.7 million. This issue only relates to financial reporting; the tracking of each individuals' voluntary contribution fund in the System's separate IT system was proper. While the System was currently performing a reconciliation between the financial reporting system and the separate IT system at a high level when preparing reserve fund workpapers, that reconciliation did not reveal these errors. We recommend the System implement additional controls over voluntary contributions to ensure the information that is being recorded in the System's general ledger ultimately agrees to the System's reserves subledger within the separate IT system.

Section II - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 19, 2024, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the System. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 4, 2024.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the System are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2024, except for GASB 100, *Accounting Changes and Error Corrections*. The adoption of GASB 100 resulted in enhanced reporting requirements related to changes in accounting estimates; for the System, additional disclosures were required related to the allowance on the Annuity Savings Fund (ASF) recoupment receivable.

We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements are the following:

Investment Valuations - The financial statements include investments valued at approximately $14.6 million (less than 1 percent of net position) at June 30, 2024 whose fair values have been estimated by management in the absence of readily determinable market values (Level 3 investments). In addition, the System has approximately $832 million of investments for which management estimated values based on net asset values provided by investee management. These investments all have underlying audited financial statements, but those financial statements are not audited as of the same year end as the System.

The valuation of alternative investments constitutes a very sensitive and significant estimate affecting the financial statements. Management uses various means to value the investments, including confirmations from the investment managers, periodic appraisals, guidance from real estate advisors, etc. These estimates are very subjective and highly sensitive to change. We believe management's estimates are in accordance with GAAP.

Estimates Inherent in the Development of the Total Pension Liability - The financial statement disclosures and required supplementary information schedules contain information about the System's total pension liability. In order to determine the total pension liability, the actuary must apply certain assumptions that are highly sensitive to estimation. The most sensitive estimates used in the valuation were as follows:

- Assumed long-term rate of return - For the purpose of GASB Statement No. 67, as of June 30, 2024, the System is currently using 6.75 percent for the assumed long-term expected rate of return based on information provided by the System's investment advisor combined with calculations performed by the System. We commend the System on continuing to be critical of this significant assumption, watching the trends nationally, and reevaluating the return assumption annually with a critical eye.

- Single discount rate calculation - The calculation of the single discount rate under GASB Statement No. 67, which is calculated using the long-term assumed rate of return as one of many assumptions, is highly sensitive to estimates the actuary makes about future contributions and future benefit payments. Inherent in those assumptions is some subjectivity surrounding the projection of future contributions. The assumption made in the GASB 67 valuation is that the actuarially assumed contributions will be made at rates sufficient to fund the benefits by amortizing the unfunded liability over a closed 30- and 15-year period for Components II and I, respectively.

- Mortality and other assumptions - The mortality and other assumptions were estimated by the actuary based on the results of an experience study for the period from July 1, 2015 through June 30, 2020. Generally, the actuary used variations of the Pub-2010 tables.

Allowance on Annuity Savings Fund (ASF) Recoupment Receivable - For members who elected to make employee contributions into the defined contributions-style program, referred to as the annuity savings fund, between July 1, 2003 and June 30, 2013, the POA called for recoupment of amounts that the System calculated in accordance with the POA provisions where excess interest was credited to individual ASF accounts. The recoupment amount was calculated in 2015, and members who had a recoupment amount were offered a lump-sum or monthly payment option. A receivable was recorded on the System's financial records for those who did not pay back the recoupment via the lump-sum option. The monthly payments are being deducted from the members' pension pay until paid in full, or the balance is forgiven upon the members' deaths (or their beneficiaries', as applicable). The current gross receivable recorded in the System's financial statements is approximately $90.6 million as of June 30, 2024. For some members, given the provisions of the POA, this recoupment has an extremely long collection period and may, in some cases, be longer than the life expectancy of the member, thereby resulting in eventual write-offs of these balances. In fiscal year 2024, now that the System has sufficient historical information related to collections and write-offs, the System recorded an allowance of $14.7 million against this receivable balance. The System will evaluate this allowance annually.

We evaluated the key factors and assumptions used to develop the estimates above and determined that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements is the disclosure related to GASB Statement No. 67, including the actuarial valuation results.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements that were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. However, uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future period financial statements to be materially misstated.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the System, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the System's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the System's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section III - Other Recommendations and Related Information

During our audit, we noted areas where we believe there are opportunities for the System to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented below for your consideration:

Benefit Payment Classification

The System processes monthly benefit payments for each retiree that are summarized and journalized in a monthly entry. These monthly payroll entries are based on the plan to which each retiree is coded (Component II or I). During testing, it was identified that some individuals' pensions are incorrectly classified between Component I and Component II. While the number of individuals incorrectly classified was insignificant, we recommend the System implement a control to ensure proper classification of members in the IT system. This will become more important as the longevity of Component I grows.

Formalize Evidence of Preparation and Review of Documents

The System's process and controls properly include preparation and review of numerous workpapers to support financial statement reporting. However, sometimes the System does not document those activities and, therefore, cannot easily substantiate that they were performed. We recommend the System formalize the preparation and review process to ensure that the System can validate these critical procedures and controls were performed, by whom and on what date. Currently, there is documentation of preparation and review of things like manual journal entries and bank reconciliations, but such items as the reserve workpapers are missing this documentation.

Informational Items

Cybersecurity and Information Technology Controls

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Public pension systems are not immune to these attacks; there are many systems across the nation that have been a target of cybercriminal activity. Because of these attacks, systems are at risk both financially and legally. Even a system with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner. We commend the System for recently undergoing a cybersecurity system assessment and encourage it to continue to prioritize addressing the items identified as part of that process.

Income Stabilization Fund

As you are aware, based on the Plan of Adjustment, the investment committee may recommend to the board of trustees that a portion or all of the assets that exceed the income stabilization benefits to be paid in the future be used to fund regular pension payments (up to $35 million). This is allowed beginning in 2022 and requires agreement from at least 75 percent of the independent members of the investment committee on the recommendation. As of June 30, 2024, the Income Stabilization Fund's net position was $13.8 million. The investment committee may want to utilize this option; if so, it will need to utilize an actuary to assist in making this determination.

Upcoming Accounting Standards Requiring Preparation

We actively monitor new Governmental Accounting Standards Board (GASB) standards and due process documents and provide periodic updates to help you understand how the latest financial reporting developments will impact the System. In addition to the summaries below and to stay up to date, Plante & Moran, PLLC issues a biannual GASB accounting standard update. The most recent update and a link to previous fall and spring updates are available here: GASB accounting standard update: Fall 2024 | Our Insights | Plante Moran.

GASB Statement No. 101 - Compensated Absences

GASB Statement No. 101 is effective for the System for the year ending June 30, 2025. The standard requires all compensated absences to be reported under a new unified model that provides recognition and measurement guidance for all compensated absences that meet certain criteria. This is a major shift from the prior standards that provided different recognition and measurement guidance for vacation leave versus sick leave. Under the new standard, all compensated absences (with some exceptions like parental leave and military leave) that meet three criteria are to be recognized (accrued). The three criteria are (1) the absence accumulates, (2) the absence is attributed to services already performed, and (3) the absence is more likely than not to be either paid or settled through other means.

A few of the more significant changes from prior guidance include the elimination of specific recognition criteria for sick leave (GASB 16's termination payment method and vesting method) in lieu of standard recognition criteria for all types of compensated absences that meet the criteria. In addition, the prior standards used the "probable criteria" as a measurement stick for recognition; GASB 101 lowers that threshold to more likely than not. More likely than not means a likelihood of more than 50 percent. Because GASB 101 does not prescribe the manner in which these leave liabilities are estimated once the criteria is met, organizations will have significant latitude in how these estimates are determined. Because of this, there may be additional reporting and additional disaggregation of historical employee leave usage information that may be required in order to come up with an accurate estimate of these liabilities. We strongly suggest organizations start thinking about these changes now, brainstorm estimation methodologies, and begin gathering the necessary information in order to successfully adopt this new standard.

GASB Statement No. 102 - Certain Risk Disclosures

This new accounting pronouncement will be effective for the System for the year ending June 30, 2025. This statement requires a government to assess whether a concentration or constraint makes the government vulnerable to the risk of a substantial impact. It also requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If certain criteria are met for a concentration or constraint, disclosures are required in the notes to the financial statements.

GASB Statement No. 103 - Financial Reporting Model Improvements

This new accounting pronouncement will be effective for the System for the year ending June 30, 2026. This statement establishes new accounting and financial reporting requirements or modifies existing requirements. The impact to the system will primarily be with the reporting of management's discussion and analysis.

GASB Statement No. 104 - Disclosure of Certain Capital Assets

This new accounting pronouncement requires certain types of capital assets, such as lease assets, intangible right-to-use assets, subscription assets, and other intangible assets, to be disclosed separately by major class of underlying asset in the capital assets note. The statement also requires additional disclosures for capital assets held for sale. The System will be required to implement this new standard for the year ending June 30, 2026.

Attachment

Client: General Retirement System of the City of Detroit
Opinion Unit: Fiduciary Funds (all)
Y/E: 6/30/2024

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:											
A1	Component I voluntary contributions for Police & Fire originally recorded as General Retirement System contributions (GRS owes PFRS)				$ 3,700,000				$ (3,700,000)		$ (3,700,000)
JUDGMENTAL ADJUSTMENTS:											
B1	None										
ITEMS UNABLE TO AUDIT:											
C1	None										
		$ -	$ -	$ -	-	$ -	$ -	$ -	-	$ -	-
	Total	**$ -**	**$ -**	**$ -**	**$ 3,700,000**	**$ -**	**$ -**	**$ -**	**$ (3,700,000)**	**$ -**	**$ (3,700,000)**

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1	The total pension liability, as calculated by the actuary, is based on census information that is either incomplete or inaccurate. The total pension liability would be different had accurate and complete information been provided to the actuary. Based on errors identified, projected understatement of the total pension liabiility of approximately $5.6 million.
D2	In the Schedule of Changes in the City's Net Pension Liability and Related Ratios (Legacy Plan), covered payroll was unavailable. This information is required, but has been noted as not available.