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December 5, 2022

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, 2022 and have issued our report thereon dated December 5, 2022. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Sections I - Internal Control Related Matters Identified in an Audit - This includes any deficiencies we observed in the System's internal control that we believe are significant. Current auditing standards require us to formally communicate on an annual basis matters we note about the System's accounting policies and internal control.

Section II - Required Communications with Those Charged with Governance - This includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of trustees and the investment committee of the System.

Section III - Other Recommendations and Related Information - This 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, 2022, 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 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 continued to identify a number of errors with the census data. The more significant errors are as follows:

- Inaccuracies with the average final compensation (AFC) and service years being used in the calculation of frozen accrued benefits (Component II only). Based on our procedures, it was noted that the majority of our sample’s actual AFC was higher than reported in the census data. The majority of the discrepancies ranged from 3 to 8 percent of AFC but there were also certain outliers where reported AFC was significantly overstated. 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.

- Service years - During our testing procedures, we noted changes to service years for deferred members in Component II. We do not expect any changes in benefit service years given this plan is frozen as of June 30, 2014. We recommend the System perform procedures in analyzing changes in service years to ensure the only changes relate to data corrections.

- Death audit - During our testing procedures, we noted a death audit was performed on the deferred members; however, these members were not removed from the census data sent to the actuary. This resulted in 31 members included in the valuation when they should have been removed, thus resulting in the total pension liability calculated being overstated. We recommend the System continue performing these death audits and ensure they are properly utilized to update the census data.

The magnitude of the census issues identified during our testing was significant, particularly with AFC; 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 not only 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. That said, we continue to encourage the System to put in place 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 accurate enough not to materially misstate financial data.

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

The System has complex modifiable 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.

Although the System is currently in the process of modifying the information technology system, we offer the following, which the System should keep in mind as it continues to fully implement the new ERP system:

- Use of automated logs - The System uses customized software for a majority of the System's needs, which includes maintaining the census data and benefits calculation application, which are managed internally by the System's IT personnel and can be modified by the IT department. For all changes to that software, there should be an automated log maintained listing those changes, and no single individual should be able to effect a change without proper authorization. Currently, the System has a process to review, authorize, and track changes, but it is not automated; therefore, it is subject to human error and possible circumvention.

- Master file changes - Additionally, it is recommended that the System 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.

- Segregation of duties - 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.

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 Investment Reporting

Over 95 percent of the System's reported net position relates to investments. The System has a process in place to accumulate and report investments to be in compliance with generally accepted accounting principles; however, we noted two errors during our audit:

- An investment was overstated by $1,600,000. This investment is jointly owned along with the Police and Fire Retirement System of the City of Detroit. The investment department internally values this investment. The process is to value the total investment, and then each system records their portion of the investment (each system owns 50 percent). The System incorrectly recorded the total investment value instead of their portion.

- As part of an agreement entered during the year with the City of Detroit, Michigan, the System has pledged collateral in case of a City default on a certain loan agreement between the City and the United States Department of Housing and Urban Development (HUD). The existence of the collateral agreement had financial reporting implications that the System did not identify.

We recommend the System implement additional controls over the System's reporting of investments to ensure investments continue to be recorded in compliance with generally accepted accounting principles. This would include added communication between investment and accounting departments to ensure all activity related to investments is being accounted for properly.

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 15, 2022, 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 August 23, 2022.

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. In the current year, the System implemented both Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. GASB Statement No. 87 establishes criteria for identifying and recording leases entered into by the System. GASB Statement No. 96 defines SBITAs and establishes accounting and financial reporting requirements for SBITAs. This implementation had minimal impact on the financial statements.

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 following are the significant estimates affecting the financial statements:

Investment valuations:

The financial statements include investments valued at approximately $21.4 million (1 percent of net position) on June 30, 2022 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 $762 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 utilizing a third-party valuation firm, 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 supplemental 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, 2022, 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. This assumed rate of return was also the single discount rate used at the end of the year. Nationally, this long-term rate of return assumption has garnered significant public attention, with many being critical of the average return assumption used by plans across the United States, which, according to a March 2022 National Association of State Retirement Administrators (NASRA) study, was 6.99 percent. 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, since the System does not have an explicit written funding policy dictating contributions after 2023, although we understand that the System and the City are working on defining such a policy. The assumption made in these calculations 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-year period.

- 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 July 1, 2015 through June 30, 2020. Generally, the actuary used variations of the Pub-2010 tables.

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 disclosure of these assumptions and resultant sensitivity of the discount rate can be found in Notes 7 and 8 to the financial statements.

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 and schedule users. The most sensitive disclosures affecting the financial statements and the schedules are the disclosures related to GASB Statement No. 67, including the actuarial valuation results.

Difficulties Encountered in Performing the Audit

We are required to inform those charged with governance of any difficulties encountered related to the performance of 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.

Section II - Required Communications with Those Charged with Governance (Continued)

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. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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 5, 2022.

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.

Information Technology Processes

- Currently, there is no formal process to fill out a production release form. Usually, a member of the IT department will inform Ray Tchou to review a production change. Ray is the only individual with the ability to release a production change. We recommend the System have a formal policy for individuals to submit a production release form to document change requests and maintain proper support of approval of any changes.

- It was noted there are administrative user profiles that remained in the System for users no longer employed at the System. These profiles have remained active, as staff need to access old files. In addition, we noted duplicate administrative user profiles for current employees. We recommend the System perform a user profile review and only allow one user profile for each current employee and that user profiles for former employees be immediately deleted upon ceasing employment.

Benefit Payment Calculations

Pension factors are used in calculating an individual's pension payment based on age and option selected. Currently, the pension factor used in the calculation of benefit payments is using an old mortality table (1984 table) and a 7.5 percent rate of return. Pension factors should be updated with a newer mortality table (Pub-2010 Mortality Table is currently being used in the actuarial valuations) and rate of return of 6.75 percent (current rate of return used for funding purposes, as stipulated by the Plan of Adjustment). Our understanding is the System will update these amounts once the benefit calculation software is implemented.

Informational Items

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, 2022, the Income Stabilization Fund's net position was $12,875,324. 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 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 fall 2022 update and a link to previous fall and spring updates are available here.

GASB Statement No. 99 - Omnibus 2022

This new accounting pronouncement has various effective dates. This statement addresses accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements, the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP), nonmonetary transactions, pledges of future revenue, the focus of government-wide financial statements, and terminology.

GASB Statement No. 100 - Accounting Changes and Error Corrections

This new accounting pronouncement will be effective for fiscal years ending June 30, 2024 and after. This statement enhances the accounting and financial reporting requirements for accounting changes and error corrections.

GASB Statement No. 101 - Compensated Absences

This new accounting pronouncement will be effective for fiscal years ending December 31, 2024 and after. This statement updates the recognition and measurement guidance for compensated absences under a unified model, requiring that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. This statement also establishes guidance for measuring a liability for leave that has not been used and updates disclosure requirements for compensated absences.

Significant GASB Proposals Worth Watching

The GASB is working on several projects that result in a comprehensive look at financial reporting for state and local governments. The following are likely to result in significant changes to governmental financial statements in the future.

The Financial Reporting Model exposure draft was issued in June 2020, and the final statement is expected to be released in late 2023. This standard proposes changes to many aspects of the governmental financial statements, mainly for those entities that present fund statements using the modified accrual basis of accounting. While the System does not report such fund statements, there are several smaller changes being proposed in this proposal that may impact the System’s financial reporting.

The Revenue and Expense Recognition project aims to develop a comprehensive accounting and financial reporting model for transactions that result in revenue and expenses. The GASB has issued a preliminary views document that proposes a new categorization framework that replaces the exchange/nonexchange transaction notion with a four-step categorization process for classifying a transaction. In addition to this new framework, the proposal also addresses recognition and measurement of revenue and expense transactions. The exposure draft for this project is expected sometime in 2025.

Plante & Moran, PLLC has spent significant time digesting these new proposed standards. We strongly encourage the System to monitor developments with these standards, as the potential impacts are quite broad.

Attachment

Client: **General Retirement System of the City of Detroit**
Opinion Unit: **Fiduciary Funds (all)**
Y/E: **6/30/2022**

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	To adjust value of investment in Life Assurance Fund, L.P.	$ (1,600,000)							$ (1,600,000)		$ (1,600,000)
A2	To remove pension payroll liability due to report error				$ (1,597,526)				1,597,526		
JUDGMENTAL ADJUSTMENTS:											
B1	None										
ITEMS UNABLE TO AUDIT:											
C1	Insight investment - Plante Moran is unable to obtain sufficient audit evidence	(2,800,000)								$ 2,800,000	
		-	$ -	$ -	-	$ -	$ -	$ -	-	-	-
	Total	**$ (4,400,000)**	**$ -**	**$ -**	**$ (1,597,526)**	**$ -**	**$ -**	**$ -**	**$ (2,474)**	**$ 2,800,000**	**$ (1,600,000)**

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 $11 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.
D3	The money weighted rate of return disclosed in the financial statements related to the Combined Plan was unable to be substantiated.