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August 28, 2024

Board of Water Commissioners Finance
Committee, City of Detroit Water and
Sewerage Department
735 Randolph Street
Detroit, MI 48226

Dear Board of Water Commissioners Finance Committee:

We are in the process of planning for the audit of the financial statements of the City of Detroit Water and Sewerage Department (“DOWDS”) for the year ended June 30, 2024. An important aspect of planning for the audit is communication with those who have responsibility for overseeing the strategic direction of DWSD and obligations related to the accountability of DWSD. At DWSD, these responsibilities and obligations are held by the Board of Commissioners Finance Committee, collectively and individually; therefore, it is important for us to communicate with each of you in your role as a member of the Board of Commissioners Finance Committee.

As part of this communication process, we will speak at length with the Board of Water Commissioners Finance Committee regarding our responsibilities under generally accepted auditing standards and the planned scope and timing of our audit. The purpose of this letter is to provide each of you with a summary of those discussions and to provide you with the opportunity to communicate with us on matters that may impact our audit.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our contract with the City of Detroit, 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.

In accordance with Generally Accepted Government Auditing Standards (GAO Standards), we are required to communicate all noncompliance with provisions of laws, regulations, contracts, or grants that have a material effect on the financial statements that comes to our attention. GAO Standards also require that we report any instances of abuse identified during that audit that could be quantitatively or qualitatively material to the financial statements.

Overview of the Planned Scope and Timing of the Audit

Timothy St. Andrew is the engagement partner responsible for supervising our services performed as part of this engagement. Our audit fieldwork will include three phases. The planning and preliminary information-gathering phase occurred during June and July 2024; the risk assessment phase in August 2024; and the rest of our audit procedures will be performed during September through December 2024.

To plan an effective audit, we must identify significant risks of misstatement in the financial statements, including those related to changes in the financial reporting framework or changes in the entity’s environment, financial condition, or activities, and design procedures to address those risks.

Because management is in a unique position to perpetrate fraud due to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be

operating effectively, generally accepted auditing standards require that we always consider this to be a significant risk. In addition, we identified the following significant risks of misstatement:

- Accounting for shared services with GLWA
- Proper measurement and recognition of customer billings, including the unbilled customer billings at year end, and the adequacy of the accounts receivable allowance
- Proper measurement, reporting and disclosure of estimated pension costs
- Proper measurement and recognition of general and other claims

In response to these identified significant risks, we will perform the following:

- Testing of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Confirmation of all receivables and payables between DWSD and GLWA.
- Detail testing of customer billings and recalculation of revenue, including the unbilled revenue at year end, based on approved rates. Additionally, review the accounts receivable allowance and perform a look back analysis for reasonableness.
- Review the assumptions used to calculate the annual pension costs incurred and test DWSD's contributions towards these costs.
- Confirmation of claims activity with internal and external legal counsel to determine reasonableness of the accrual for such claims and financial statement disclosures.

The concept of materiality is inherent in our work. We place greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

Information from You Relevant to Our Audit

An important aspect of this communication process is the opportunity for us to obtain from you information that is relevant to our audit. Your views about any of the following are relevant to our audit:

- DWSD's objectives and strategies and the related business risks that may result in material misstatements
- Matters that you consider warrant particular attention during the audit and any areas where you want to request additional procedures be undertaken
- Significant communications between DWSD and regulators
- Understanding of DWSD's relationships and transactions with related parties that are significant to DWSD and any concerns regarding those relationships or transactions
- The attitudes, awareness, and actions concerning:
 - DWSD's internal control and its importance to DWSD, including how the Board of Water Commissioners Finance Committee oversees the effectiveness of internal control and the detection or possibility of fraud

- The detection or possibility of fraud, including whether Board of Water Commissioners Finance Committee has knowledge of any actual, suspected, or alleged fraud affecting DWSD
- Any significant unusual transactions DWSD has entered into
- The actions of the Board of Water Commissioners Finance Committee in response to developments in accounting standards, regulations, laws, previous communications from us, and other related matters and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
 - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
 - Whether all required information has been included in the financial statements and whether such information has been appropriately classified, aggregated or disaggregated, and presented

If you have any information to communicate to us regarding the above or any other matters you believe are relevant to the audit, or if you would like to discuss the audit in more detail, please call me at (313) 496-8542 as soon as possible.

Thank you for your time and consideration in this important aspect of the audit process. You can expect to hear from us again after the completion of our audit when we will report to you the significant findings from the audit.

Very truly yours,

Plante & Moran, PLLC



Timothy St. Andrew
Partner