

August 7, 2019

To the Board of Water Commissioners,
the Honorable Mayor, and
the Members of the City Council
735 Randolph St.
Detroit, MI 48226

Dear Commissioners, Honorable Mayor, and Members of City Council:

We are in the process of planning for the audit of the financial statements of the Water Fund and Sewer Fund, enterprise funds of the City of Detroit, Michigan (the "City") for the year ended June 30, 2019. An important aspect of planning for the audit is communication with those who have responsibility for overseeing the strategic direction of the City and obligations related to the accountability of the City. At the City of Detroit Water Fund and Sewer Fund, these responsibilities and obligations are held by the Board of Water Commissioners and Members of City Council, 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 Water Commissioners and City Council.

As part of this communication process, we have spoken at length with the Board of Water Commissioners Finance Committee and Budget, Finance and Audit Standing 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 and Generally Accepted Government 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. In accordance with *Government Auditing Standards*, a copy of Plante Moran's most recent peer review report is included as an attachment to this letter.

Overview of the Planned Scope and Timing of the Audit

Our audit fieldwork will include three phases. The original contract stated that all phases would be complete by December 31, 2019. The planning, preliminary information-gathering, and risk

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assessment phases will occur from June through August 2019; the rest of our audit procedures are currently scheduled to take place from September through December 2019 but are highly dependent on the Water Fund's and Sewer Fund's level of preparedness.

To plan an effective audit, we must identify significant risks of misstatement in the financial statements and design procedures to address those risks.

We identified the following significant risks of misstatement:

- Proper accounting for customer receivables, including application of receivable collections between GLWA and DWSD, and allowances for doubtful accounts.
- Valuation and completeness of employee accumulated leave time balances.
- Proper cut-off of revenues and expenditures.
- Settlement of interfund transactions with other funds of the City.
- Estimation of claims against the department related to lawsuits, workers' compensation, etc.
- Proper recording of capital assets, including construction in process and any asset write-offs.
- Allowability and completeness of grant expenditures.
- Compliance with the provisions of the MOU, including accounting for the activity that has taken place in the various trust accounts held on behalf of DWSD.
- Proper recording of the net pension liability, and related deferred inflows and outflows, in accordance with GASB 68.
- Management override of financial data from the normal accounting processes.

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

- Detailed analytical procedures and recalculation of the balance based on third party information and review of methodology for assessing collectability of receivables.
- Detailed analytical procedures and transaction based testing of employee compensation expenditures and leave balances.
- Review of vendor invoices that were received after year-end to determine the appropriate period for recognition in the accounting records. Review recording of significant revenues, including revenue recorded near year-end, to ensure proper recording on both modified and full accrual levels.

- Review interfund activity for consistency with other City records.
- Review of estimated liabilities for claims established by management and recalculation of balance based on third party information.
- Detail testing of asset additions and disposals and the related recording and recognition in the financial statements.
- Detailed analytical procedures and transaction based testing of grant expenditures, including reviewing supporting documentation to verify allowability.
- Tests of compliance with provisions of the MOU, and confirm directly with GLWA the activity that has taken place in the various trust accounts held on behalf of DWSD in the master bond ordinance.
- Review documentation prepared by the City's actuary and Water Fund's and Sewer Fund's calculation of the net pension liability and related journal entries in accordance with GASB 68.
- Obtain full understanding of key management estimates used and test assumptions made to determine the reasonableness of the estimates.

We will gain an understanding of accounting processes and key internal controls through a review of the accounting procedures questionnaires and control procedures questionnaires prepared by management. We will confirm through observation and inspection procedures that accounting procedures and controls included in the questionnaires have been implemented. We will not express an opinion on the effectiveness of internal control over financial reporting; however, we will communicate to you significant deficiencies and material weaknesses identified in connection with our audit.

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:

- The Water Fund's and Sewer Fund's objectives and strategies, and the related business risks that may result in material misstatements.
- Matters you consider warrant particular attention during the audit, and any areas where you want to request additional procedures be undertaken.

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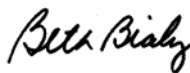
- Concerns about the Water Fund's and Sewer Fund's internal control and its importance to the City Council, including how the Board of Water Commissioners and City Council oversees the effectiveness of internal control and the detection or possibility of fraud.
- Significant communications with regulators.
- The actions of the Board of Water Commissioners and City Council in response to developments in accounting standards, regulations, laws, previous communications from us, and other related matters.

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 Beth at 248-223-3377, Stacey at 248-223-3382, or Tim 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



Beth Bialy, CPA
Partner



Stacey Reeves, CPA
Partner



Timothy St. Andrew, CPA
Senior Associate