

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management, the Honorable Mayor
Michael E. Duggan, and the Honorable Members
of the City Council
City of Detroit, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Detroit, Michigan (the "City") as of and for the year ended June 30, 2023 and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 21, 2023.

Our report includes a reference to other auditors who audited the financial statements of the following discretely presented component units: Detroit Brownfield Redevelopment Authority, Detroit Public Library, Detroit Transportation Corporation, Downtown Development Authority, Eastern Market Corporation, Economic Development Corporation, Local Development Finance Authority, Museum of African American History, Detroit Land Bank Authority, Eight Mile/Woodward Corridor Improvement Authority, and Community Education Commission, which collectively represent 78.54 percent, 75.50 percent, and 52.77 percent of the assets, net position, and revenue, respectively, of the discretely presented component units. We also did not audit the financial statements of the following blended component units: Public Lighting Authority, which is a major enterprise fund with assets, net position, and revenue of \$205 million, \$30.6 million, and \$24.3 million, respectively; the Greater Detroit Resource Recovery Authority, which represents 3.14 percent, 5.28 percent, and 1.39 percent of the assets, net position/fund balance, and revenue, respectively, of the aggregate remaining fund information; and the Detroit Building Authority, which represents 33.58 percent, 5.63 percent, and 65.13 percent of the assets, fund balance, and revenue, respectively, of the major Capital Projects Fund. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Capital Projects Fund, business-type activities, aggregate discretely presented component units, and Public Lighting Authority as a major enterprise fund, are based solely on the reports of the other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Greater Detroit Resource Recovery Authority, Detroit Public Library, and Museum of African American History were not audited in accordance with *Government Auditing Standards*, and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the entities listed above.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Findings 2023-001 and 2023-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Responses to the Findings

Government Auditing Standards require the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

December 21, 2023

Schedule of Findings and Responses

Finding Number	2023-001
Finding Type	Material weakness (repeat finding)
Criteria	The City should have a process and controls in place to ensure proper financial reporting, which includes proper recording of all journal entries, general ledger balances, and footnote disclosures, in accordance with generally accepted accounting principles (GAAP) prior to the commencement of the audit.
Condition	There were several significant adjustments to the general ledger during the audit process as a result of certain underlying financial records not being reconciled and closed in a timely manner.
Context	<p><i>The City</i></p> <p>There were five adjusting journal entries over \$5 million that were proposed by the auditors and posted by the City in order to ensure the financial statements were not misstated.</p> <p>Proposed adjusting journal entries were identified during the audit of the City impacting several opinion units. The most significant adjustments included entries to increase contingent liabilities specifically related to the legal case reserve; increase intergovernmental revenue related to certain grant activity; and make adjustments to properly record activity of the Detroit Building Authority in the Capital Projects Fund.</p> <p>In addition to the significant proposed adjusting journal entries described above, there were other proposed adjusting journal entries that were immaterial, both individually and in the aggregate, to the financial statements taken as a whole.</p> <p>Deficiencies noted that were not related to proposed adjusting journal entries include controls surrounding investigation into general ledger balances that may result in an adjustment upon further review, but were deemed to be materially correct in relation to the financial statements taken as a whole.</p> <p><i>Component Units</i></p> <p>Detroit Transportation Corporation (DTC) had a lack of timely reconciliations and a significant number of adjustments related to the following balances: lack of timely reconciliations related to cash and investments, prepaids, and FTA grant activity, as well as adjustments to accounts payable and other liabilities. In addition, drawdowns for FTA federal portion and state portion were not made timely, and errors existed in classification of certain account balances.</p> <p>Detroit Public Library (DPL) had material adjustments for the proper recognition of leases, subscription-based information technology arrangements, and accounts payable.</p> <p>Detroit Employment Solutions Corporation (DESC) had material auditor-identified adjustments.</p>
Cause	Processes and controls were not in place to ensure that coordination and involvement of several departments occurred such that year-end closing entries for certain significant activities and balances were properly recorded in the general ledger timely.
Effect	If the auditor-identified entries identified above had not been recorded, the financial statements would have been materially misstated.

Schedule of Findings and Responses (Continued)

<p>Recommendation</p>	<p>The City, as well as its agencies and component units, should continue to work with all departments to ensure a process and controls are implemented to accurately reconcile and record all journal entries prior to the start of the audit. Significant areas that resulted in delays in finalizing the adjustments for closing the City’s ledger, as well as contributed to proposed adjusting journal entries, include federal and state grant activity, contingent liabilities, and Detroit Building Authority blending adjustments. The lack of a process for ensuring these activities are timely reflected in the City’s financial reporting could result in material misstatement and the inability of management to monitor significant activity that may be subject to regulation and require additional monitoring to ensure compliance. A more effective review of the recording of this activity throughout the year and during the close process would assist in more timely identifying and correcting potential errors.</p>
<p>Views of Responsible Officials and Planned Corrective Actions</p>	<p>In fiscal year 2023, the City continued the Audit Finding Corrective Action Plan (AFCAP) project to review and address policies and procedures that led to audit findings and provide training to staff to prevent future audit findings. While the City completed addressing several of the 2022 fiscal year audit findings, some remain in progress through the project plan. The City will add the 2023 fiscal year audit findings to this project to ensure policies, procedures, and training are in place in fiscal year 2024.</p> <p>As part of this process, the City will continue to root cause journal entries made following the close of the fiscal year and develop processes and reports to prevent or address these earlier. The City staff will systematically review ledger balances to ensure that adjustments are made timely and accurately in accordance with the City’s accounting policies and procedures.</p> <p>The City’s component unit, Detroit Transportation Corporation, has implemented a new role in the accounting department to accommodate the department’s workload. DTC will ensure staff is properly trained. DTC will also perform grant and general ledger reconciliations throughout the fiscal year.</p>
<p>Finding Number</p>	<p>2023-002</p>
<p>Finding Type</p>	<p>Material weakness</p>
<p>Criteria</p>	<p>The City is responsible for ensuring proper internal controls exist to prevent misappropriation of assets, including establishing proper bank-level controls that would require two authorized users to initiate and release payments from banking or securities accounts.</p>
<p>Condition</p>	<p>The City’s blended component unit, the Public Lighting Authority (PLA) did not establish bank-level dual-authorization requirements over the initiation and release of disbursements from certain bank and securities accounts. Due to a lack of dual-authorization requirements, a cybersecurity incident resulted in the release of a fraudulent payment by the Public Lighting Authority.</p>

Schedule of Findings and Responses (Continued)

<p>Context</p>	<p>During the year, the City's blended component unit, the Public Lighting Authority, established a new securities account with a financial institution. The PLA did not ensure the existence of bank-level controls requiring that the actions to initiate and release payments require separate individuals.</p> <p>As a result, in April 2023, through the PLA's month-end review and reconciliation process, the PLA discovered that its financial institution had transferred \$8,748,650 of the PLA's funds based upon instructions from a third party impersonating an authorized signer over its securities account, of which \$4,717,088 has been recovered to date.</p> <p>Additionally, the City performed a review of its controls with all of its significant financial institutions and identified and removed the ability of an individual authorized signer appearing in person at a bank location to initiate a disbursement without a secondary approval for certain nonprimary and immaterial bank accounts.</p>
<p>Cause</p>	<p>For a new securities account and certain nonprimary and immaterial bank accounts, the City's blended component unit and the City did not have segregation of duties requiring that the actions to initiate and release cash disbursements would require a secondary approval.</p>
<p>Effect</p>	<p>In addition to the material misappropriation of assets at PLA during the year, the lack of appropriate bank-level authorizations could have resulted in additional material misappropriations of assets that were not prevented.</p>
<p>Recommendation</p>	<p>While the City's blended component unit and the City have subsequently reviewed and remedied the access rights at its major financial institutions, the City should ensure that its ongoing processes and controls include periodic access right reviews, along with ensuring appropriate access rights are established upon creation of new accounts or relationships to ensure each major bank is limited in making external transfers unless two authorized signers approve of the transaction.</p>
<p>Views of Responsible Officials and Planned Corrective Actions</p>	<p>The City's blended component unit, the Public Lighting Authority, will continue to work with its IT support team to increase cybersecurity in its operations. This will include the rollout of multifactor authentication, an email defense application, and other security and data integrity measures recommended by IT consultants.</p>