

October 3, 2024

To the Honorable Mayor and
Members of the City Council
City of Detroit, Michigan
2 Woodward Ave
Detroit, MI 48226

Dear Honorable Mayor and Members of the City Council:

We are in the process of planning for the audit of the financial statements of the City of Detroit (“the City”) 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 the City and obligations related to the accountability of the City. At the City, these responsibilities and obligations are held by the City Council and the Honorable Mayor, collectively and individually; therefore, it is important for us to communicate with each of you in your role as a member of the City Council and in your role as Honorable Mayor.

As part of this communication process, we will be speaking at length with the Budget, Finance, and Audit Standing Committee and the Honorable Mayor 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 #6000238 addressed to the City of Detroit and dated August 1, 2016, 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. Additionally, in accordance with the Government Auditing Standards, a copy of our most recent peer review report is included as an attachment to this letter.

Overview of the Planned Scope and Timing of the Audit

Ali Hijazi is the engagement partner responsible for supervising our services performed as part of the audit of the City’s financial statements. Our audit fieldwork will include three phases. The planning and preliminary information-gathering phase and the risk assessment phase will occur from June through August; and the rest of our audit procedures are scheduled to take place from September through December 2024, but are highly dependent on the City’s preparedness.

As you are aware, the City contracts with various auditors for portions of the City’s group audit. During the planning and preliminary phase, we identified the entities and their auditors in the table below as components of the group financial statement of the City of Detroit. As allowed by auditing standards, we have determined it is impracticable for us to be involved in the component auditors’ work to the extent

which, in our judgement, would be necessary to assume responsibility for the work of the component auditors.

City of Detroit Brownfield Redevelopment Authority	George Johnson & Company
Detroit Public Library	Maner Costerisan
Detroit Transportation Corporation	Alan C. Young & Associates, P.C.
City of Detroit Downtown Development Authority	George Johnson & Company
Eastern Market Corporation	George Johnson & Company
Economic Development Corporation of the City of Detroit	George Johnson & Company
Greater Detroit Resource Recovery Authority	Alan C. Young & Associates, P.C.
City of Detroit Local Development Finance Authority	George Johnson & Company
Museum of African American History	Alan C. Young & Associates, P.C.
Detroit Land Bank Authority	George Johnson & Company
Eight Mile/Woodward Corridor Improvement Authority	George Johnson & Company
City of Detroit Building Authority	Alan C. Young & Associates, P.C.
City of Detroit Public Lighting Authority	George Johnson & Company
Community Education Commission	Alan C. Young & Associates, P.C.
Joint Employment and Procurement Advisory Board	Alan C. Young & Associates, P.C.
Detroit Employment Solutions Corporation	Maner Costerisan

For components where we are making reference to the work of the component auditor, we will communicate to the component auditor significant risks of material misstatement of the group financial statements identified by us that we believe are relevant to the work performed by the component auditor for purposes of the audit of the group financial statements.

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:

- Improper revenue recognition related to:
 - Management's estimates of income tax receivables, including the related allowance for uncollectible balances, and income tax liabilities
 - Intergovernmental revenues related to American Rescue Plan Act (ARPA) funding and other significant new grants/agreements
- Measurement of significant estimates of:
 - Claims and judgment liabilities, including those related to worker's compensation claims and legal reserves
 - Allowance for uncollectible receivables, including developer loans

- Valuation of the total pension liability
- Accumulated leave time balances
- Appropriate financial reporting related to the City's funding of subrecipients and other similar arrangements
- Proper calculation of payouts of compensated absences in accordance with terms of relevant collective bargaining agreements
- Appropriate segregation of duties over access to cash, including online banking processes and controls

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.
- Proper revenue recognition for ARPA and significant new grants through review of grant agreements and evaluation of management's application of the appropriate revenue recognition requirements
- Evaluation of management's methodology, assumptions used, and key inputs in determining significant estimated balances related to income tax receivables and liabilities, claims and judgments, allowance for uncollectible receivables, total pension liabilities, and accumulated leave time balances
- Review of agreements and nature of funding to subrecipients and other similar arrangements to ensure appropriate financial reporting
- Comparison of a sample of compensated absence balance payout calculations to the terms of relevant collective bargaining agreements
- Obtaining an understanding of the internal controls around cash as well as ACH and wire transfer processes and controls and confirming significant processes and controls with key financial institutions

For components where we are making reference to the work of the component auditor, we will review the overall findings and conclusions of the component auditor that could have a material impact on the group financial statements.

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 City'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 the City and regulators
- Understanding of the City's relationships and transactions with related parties that are significant to the City and any concerns regarding those relationships or transactions
- The attitudes, awareness, and actions concerning:
 - The City's internal control and its importance to the City, including how the City Council and Honorable Mayor oversee the effectiveness of internal control and the detection or possibility of fraud
 - The detection or possibility of fraud, including whether City Council and Honorable Mayor have knowledge of any actual, suspected, or alleged fraud affecting the City
 - Any significant unusual transactions the City has entered into
- The actions of the City Council and Honorable Mayor 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

Other information included in the annual comprehensive financial report comprises the introductory and statistical section. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report. Management expects that final versions of other information will be provided to us prior to the date of the auditor's report. 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 Ali Hijazi at (586) 416-4975, Stacey Reeves at (248) 223-3382 or Amanda Ward at (248) 223-3528 as soon as possible.

To the Honorable Mayor and Members of the City Council
City of Detroit

October 3, 2024

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



Ali Hijazi, CPA
Partner



Stacey Reeves, CPA
Partner



Amanda Ward, CPA
Partner