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# City of Detroit

## FY 2024 Pre-Audit Communication



# Responsibilities under GAAP and GAS

- To express an opinion on whether the financial statements prepared are fairly presented in accordance with U.S. generally accepted accounting principles (GAAP).
- Under government auditing standards (GAS), we are required to communicate all noncompliance with provisions of laws, regulations, contracts or grants that may have a direct and material effect on the financial statements.



# Responsibilities under GAAP and GAS (continued)

- GAS also requires that we report any instances of abuse identified during that audit that could be quantitatively or qualitatively material to the financial statements.



# Planned Scope and Timing of Audit

- Audit fieldwork will include three phases:
  - Planning and risk assessment – June through August 2024.
  - Fieldwork and Deliverables – September through December 2024.
  - Completion of procedures in accordance with the above timing is highly dependent on the City's level of preparedness.



# Planned Scope and Timing of Audit (continued)

- Reports issued by other auditors:
  - The City contracts with various auditors for portions of the City's group audit; these are identified below:

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



# Planned Scope and Timing of Audit (continued)

- Reports issued by other auditors (continued):
  - 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 judgment, would be necessary to assume responsibility for the work of the component auditors.
  - We will communicate to the component auditor significant risks of material misstatements 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.
  - We will review the overall findings and conclusions of the component auditor that could have a material impact on the City's financial statements.



# Planned Scope and Timing of Single Audit

- Planning, risk assessment, fieldwork and deliverables – consistent with ACFR
  - Goal to issue ACFR and Single Audit concurrently
  - Evaluation of component units' single audit requirements
- 7 major programs anticipated based on draft SEFA
- Significant continued pandemic related funding



# Identified Significant Risks of Misstatement/Noncompliance

- **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





# Identified Significant Risks of Misstatement (Continued)

- 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
- Management override of controls



# Response to Risks, Approach to Internal Controls and Materiality

- We will perform procedures (described in the pre-audit letter) to specifically address the risks identified above.
- We will gain an understanding of the City's internal controls but will not express an opinion on the effectiveness of these controls over financial reporting.
- 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.



# Views of Those Charged with Governance

An important aspect of this communication process is the opportunity for us to obtain from you information that is relevant to our audit, which include your views on the following:

- The City's objectives and strategies, and the related business risks that may result in material misstatements.
- Matters you consider warrant particular attention during the audit, including areas where additional procedures are requested.
- Significant communications with regulators.
- Significant relationships and transactions with related parties
- The attitudes, awareness and actions concerning:
  - The City's internal control and your oversight of the effectiveness of internal control and the detection or possibility of fraud, including whether you have any knowledge of any actual, suspected, or alleged fraud affecting the City
  - Any significant unusual transactions the City has entered into
- The actions taken in response to developments in accounting standards, regulations, laws, previous communications from auditors, and other related matters.



**Thank you for the opportunity  
to serve as auditors for the  
City of Detroit.**