Plante & Moran, PLLC
1098 Woodward Avenue
Detroit, MI 48226-1906
Tel: 313.496.7200
Fax: 313.496.7201
plantemoran.com

July 5, 2017

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

We have audited the financial statements of the Water Fund and the Sewage Disposal Fund of the City of Detroit, Michigan (Detroit Water and Sewerage Department or DWSD) as of and for the six months ended December 31, 2015 and have issued our report thereon dated July 5, 2017. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section I includes any deficiencies we observed in DWSD's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about DWSD's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Honorable Mayor and members of the City Council of the City of Detroit, Michigan.

We would like to take this opportunity to thank DWSD's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the Honorable Mayor and members of the City Council of the City of Detroit, Michigan as well as the Detroit Water and Sewerage Department and the Great Lakes Water Authority and is not intended to be and should not be used by anyone other than these specified parties. We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

Joseph C Heffernan

Joseph C. Heffernan

Stacey Reeves

Stacey Reeves

Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of DWSD as of and for the six months ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered DWSD'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DWSD's internal control. Accordingly, we do not express an opinion on the effectiveness of DWSD's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 entity’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.

We have previously issued our report dated May 31, 2017 addressed to the Honorable Mayor and members of the City Council on our consideration of the City of Detroit’s (the “City”) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2016. The internal control matters identified in that report that are relevant to DWSD are as follows (note that the finding numbers refer to the more comprehensive discussion to be found in the May 31, 2017 Report on Internal Control and Compliance):

Finding No.	2016-001
Finding Type	Material weakness
Finding	DWSD should have a process in place to ensure proper recording and reconciling of general ledger activity throughout the year as well as identification and recording of all year-end closing entries in accordance with generally accepted accounting principles (GAAP) prior to the commencement of the audit. DWSD’s general ledger and underlying financial records were not reconciled and closed in a timely manner.

Finding No.	2016-002
Finding Type	Material weakness
Finding	There should be a procedure in place to reconcile bank activity on a timely basis and to ensure cash balances are properly stated as of the end of the year. In addition, the City should ensure its listing of accounts with financial institutions is updated timely and access rights related to online banking are reviewed and updated as employee status changes are made. DWSD did not have procedures in place to ensure all bank accounts were fully reconciled to the general ledger on a timely basis.

Finding No.	2016-003
Finding Type	Material weakness
Finding	There should be a documented process in place to ensure that the City has proper segregation of duties and approval processes in place related to certain employee-related cash disbursements. During our audit, we noted that there was a lack of adequately documented, segregated, and implemented controls over processes related to wage changes and approvals, and employee termination payments.

Section I - Internal Control Related Matters Identified in an Audit (Continued)

Finding No.	2016-005
Finding Type	Material weakness
Finding	The City of Detroit/DWSD relies on multiple third-party service providers to process transactions, including workers' compensation, IT hosting services, payroll processing, and self-insurance claims processes. When an entity outsources tasks or functions to a third-party service organization, the user organization, in this case the City, needs to monitor risks associated with outsourcing, particularly risks related to how the service organization performs the tasks or functions and how that may affect the user entity's compliance with requirements. The City did not have processes in place to assess and validate controls in place at third-party service providers.

Finding No.	2016-007
Finding Type	Material weakness
Finding	The City should ensure general controls related to user access of information technology are operating effectively. The City did not have processes in place to ensure user access to the financial application systems was reviewed to ensure appropriate access rights were granted and limited to user needs and changes in access were made as user roles changed.

Finding No.	2016-008
Finding Type	Significant deficiency
Finding	The City should have controls in place to ensure that adjustments to individual customer accounts in the utility billing system are appropriate and documented as reviewed by a second person. We identified two customers whose drainage charges were modified in the utility billing system, and we did not observe any documented procedure for a second person to review and approve these changes. In one of the instances, we did not note any documentation supporting the change or explaining why the change was being made.

Section II - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in contract #6000238 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. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of DWSD. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

We have noted the following instance of noncompliance with laws and regulations during the course of our audit: While Public Act 213 of 2007 requires quarterly investment reports to be provided to City Council, such reports were not issued.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 13, 2017.

As for scope, there were several audit areas that required development of additional procedures to address the propriety of recorded balance sheet items as of June 30, 2015. The most significant changes to audit scope related to capital assets accounts.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by DWSD are described in Note 2 to the financial statements.

DWSD adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, during the current period. The adoption of this new accounting pronouncement resulted in expanded footnote disclosures regarding fair value measurements and valuation techniques related to investments reported at fair value, including those that calculate net asset value per share or its equivalent.

We noted no transactions entered into by DWSD during the period for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Estimate	Basis for Estimate
Accrued claims and judgments	The estimated probable loss that will result from ongoing litigation involving general and automobile claims
Accrued workers' compensation	An actuarial report prepared by an independent third party. The report was based on certain assumptions pertaining to actual loss development patterns which are augmented with industry benchmark loss development patterns.
Allowance for doubtful accounts	Management's analysis of accounts receivable for water and sewer billings that are unlikely to be collected by DWSD
Net pension liability, deferred inflows and outflows, and pension expense	Independent third-party actuary services. These valuations are based on certain assumptions pertaining to mortality, expected returns on plan assets, and future contributions from the City/DWSD.
ARC to the pension plans	Independent third-party actuary services. These valuations are based on certain assumptions pertaining to mortality, expected returns on plan assets, funding methodologies, and other assumptions.

We evaluated the key factors and assumptions used to develop the estimates above in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the long-term obligation disclosures included in Note 7, Note 8, and Note 9, the pension disclosures in Note 11, the risk management disclosures in Note 10, the contingencies disclosures in Note 15, the bankruptcy disclosures in Note 16, and the subsequent event disclosures in Note 17.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit for the period ended December 31, 2015.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

Section II - Required Communications with Those Charged with Governance (Continued)

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting DWSD, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our retention as DWSD's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 5, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to DWSD's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.