

March 15, 2017

To the Board of Directors  
Town of Erwin Community Development Agency

In planning and performing our audit of the financial statements of the Town of Erwin Community Development Agency (the "Agency") as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Agency'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 an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 material weaknesses or significant deficiencies 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.

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 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. We consider the deficiencies noted on page 2 to be material weaknesses in internal control.

During our audit, we also noted certain operational matters that are presented for your consideration, and have been identified as "other comments and recommendations" on page 3. These other comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. This letter does not affect our report dated March 15, 2017 on the financial statements of Town of Erwin Community Development Agency. We will review the status of these comments during our next engagement. We will be pleased to discuss these comments in further detail at your convenience, perform additional study of these matters or assist you in implementing the recommendations.

The Agency's written response to the material weaknesses identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Directors, and others within the Agency and is not intended to be, and should not be, used by anyone other than those specified parties.

Very truly yours,

*EFPR Group, CPAs, PLLC*

EFPR Group, CPAs, PLLC

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**Town of Erwin Community Development Agency**  
**Material Weaknesses in Internal Control**  
**December 31, 2016**

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**Material Weakness - Material Journal Entries:** During the current year audit, it was necessary to make a significant number of material journal entries to the Agency's general ledger. Although we as auditors are involved in the process of drafting the financial statements and related footnotes and may be consulted with respect to entries necessary to record specific transactions, it is management's responsibility to maintain the necessary expertise and the proper system of controls to properly prevent or detect a material misstatement in the general ledger and in the financial statements.

**Recommendation:** We recommend that formal year end closing procedures be established to facilitate the preparation of the general ledger. A closing checklist should be used to standardize the closing process and provide assistance in performing reconciliations.

***Management Response:*** 2016 was a transition year for the Agency. The bookkeeper of 43 years passed in December 2015, after a 6 month illness. A contract service was procured in October 2015 to complete 2015 books and to open and begin 2016 books. A new bookkeeper was hired in February 2016. Due to the sudden change in personnel and interim contract service, there was a lack of continuity and training. Efforts have been made during 2016 to rectify this situation, and procedures are in place to ensure orderly closure and entries.

**Material Weakness - Backdating Checks:** During the current year audit, it was noted that checks produced in January 2017 were backdated using a December 2016 date. These checks were then included in the list of December 31, 2016, outstanding checks as if they had been actually cut in December. Proper cutoff is extremely critical in all aspects of accounting. Any process or procedure that holds the books open or closes them in advance will yield inaccurate financial results.

**Recommendation:** We recommend that all check disbursements be dated in sequence using the date the check is actually produced.

***Management Response:*** The transition caused confusion especially in proceeding from the notes left by the contractor, and although the transfers had been authorized by the Board, the cash was not moved before the end of the year. The new bookkeeper erred in recording the transaction. Training has occurred and procedures are in place to ensure compliant entries.

**Town of Erwin Community Development Agency**  
**Other Comments and Recommendations**  
**December 31, 2016**

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**Other Comment: Inadequate Safeguards over Blank Checks:** During the current year audit, it was noted that blank checks are being stored in an unsecured location. This situation creates the possibility that a blank check could be taken by an unauthorized individual and then executed and presented for payment.

**Recommendation:** To safeguard against such an event, blank check stock should be kept in a locked box or cabinet accessible only to those with proper authorization. The checks should always be used in sequential order and periodically accounted for.

**Management Response:** *The checkbooks have been moved to a locked location.*

**Other Comment: Segregation of Duties - Cash Disbursements, General Ledger, and Bank Reconciliation:** Due to the limited number of people working in the office, many critical duties are combined and given to the available employees. Presently, a single individual prepares and is authorized to use the signature stamp to sign checks, reconciles bank accounts, and maintain the general ledger. To the extent possible, duties should be segregated to serve as a check and balance and to maintain an effective internal control system.

**Recommendation:** We feel segregation could be improved if different employees performed the separate duties of signing checks, processing cash receipts and cash disbursements, and maintaining books or original entry. Additionally, we suggest the Agency designate an individual, such as the Executive Director or a member of the Board of Directors, to perform a timely review of bank reconciliations. This review should include a scan for any unusual items, investigate and fully resolve any such items, and document their approval by initialing and dating the reconciliation. Implementation of these controls will enhance the accuracy and completeness of financial information.

**Management Response:** *On a monthly basis, as placed on the monthly agenda, the report of receipts and disbursements will be presented to the Agency Board and filed with the Executive Director. On a monthly basis, the Executive Director will review and initial the bank reconciliation.*