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To the Honorable Members of
City Council
City of Franklin, Virginia

In planning and performing our audit of the financial statements of the City of Franklin, Virginia for the year ended June 30, 2018, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We reported on the City's internal control in our report dated November 14, 2018. This letter does not affect our report dated November 14, 2018 on the financial statements of the City of Franklin, Virginia.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the City's personnel, and we will be pleased to discuss them in further detail at your convenience.

Sincerely,

Creedle, Jones & Alga, P.C.

Creedle, Jones & Alga, P.C.
Certified Public Accountants

South Hill, Virginia
November 14, 2018

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MEMORANDUM

CITY OF FRANKLIN, VIRGINIA

Management Letter Points

School OPEB Liabilities and Actuarial Valuations

Due to the implementation of GASB 75, OPEB (Other Post-Employment Benefits) benefits for future and current retirees, must be actuarially determined and the net pension benefit obligations must be reported in the City's CAFR (Comprehensive Annual Financial Report). The School Division needs to be more diligent in providing, calculating, and accumulating data for all of the various OPEB plans that the school participates in with VRS and with the retirees' health insurance. The School Board has to provide current year covered payroll and current year employer contributions for all of its OPEB plans – retirees' health insurance, VRS group life, VRS health insurance credit, VRS Virginia Local Disability Program, and VRS retiree health insurance. These numbers and reports should be available at the beginning of the audit.

School Reconciliation between RDA System and Edmunds System

The City should continue to insist on the school food service bank balance being reconciled monthly between the Component Unit School Board and the City with both entities' systems (Edmunds and RDA) arriving at the same balances. Discrepancies are difficult to find when the two systems are only reconciled once a year for audit purposes. All of these reconciliations should occur monthly. Systems can be put in place that would streamline this process. The School Board's cash account for the School Food Service Fund (on RDA system) was not in balance with the City's cash balance on the Edmunds System. There were numerous errors on the School's RDA system's bank reconciliation. Since this is the School Finance Director's responsibility, a higher official should approve this monthly bank reconciliation until the process is done timely and accurately on a consistent basis. Outstanding items were incorrectly listed on the bank reconciliation which had to be corrected for audit purposes.

School Board Year-End Accruals

The School Board needs to thoroughly review its invoices at year end to properly record accounts payable. Any invoices incurred or bills that are unpaid with dates of June 30 or prior are considered accounts payable and should be expensed in that fiscal year whether paid or not. Year-end adjustments are normally made until early September for such accruals so the final records reflect all expenses incurred. This ensures an accurate ending fund balance for the School funds. Accounts payable items had to be corrected by the City in order to correctly state expenditures and accounts payable at year end, particularly with invoices related to high dollar purchases for fixed assets.

School Board Fixed Assets

The School Board's fixed asset system needs to be updated on a timelier basis at year end in order to correctly generate year end audit reports. It took several weeks before the fixed asset reports were correctly provided so that audit procedures could be applied to the fixed asset data. Once provided, it was noted that accumulated depreciation figures needed to be evaluated by the RDA software company in order to properly report the figures for next year's audit. The figures could be calculated correctly but the reports were showing the wrong figures.