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Management Letter

January 15, 2019

To the Board of Directors
National Pest Management Association, Inc. & Affiliate

In planning and performing our audit of the consolidated financial statements of National Pest Management Association, Inc. & Affiliate (collectively, the Organization) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly we do not express an opinion on the effectiveness of the Organization'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 a certain deficiency in internal control 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 Organization's consolidated financial statements will not be prevented or detected and corrected on a timely basis. We consider the "General Ledger Account Reconciliations" and the "Database Reconciliations" comments discussed below to be material weaknesses.

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 also provided an update on the status of our comments related to the prior years' consolidated financial statement audits.

Management's written responses to the comments have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

CURRENT YEAR COMMENTS

General Ledger Account Reconciliations (Material Weakness)

Observation: The general ledger account schedules were not reconciled to the general ledger on a timely basis. The general ledger represents an accounting record of the Organization's financial transactions and is the source document for preparation of the financial statements. Thus, it is imperative that the general ledger be accurate on a consistent and timely basis in order for management and the Board of Directors to make informed decisions throughout the year.

Recommendation: We recommend that the general ledger account schedules be reconciled to the general ledger on a monthly basis.

Management's response: The Organization has completed a comprehensive assessment of existing inherited accounting practices and implemented new accounting practices which are in alignment with best practices for accounting. Using current best practices for accounting, going forward all GL accounts will be reconciled for the current fiscal year (FY18-19).

Database Reconciliations (Material Weakness)

Observation: During the course of our audit fieldwork and based on our discussion with management, we noted several discrepancies between information input into the Aptify database and the transactions recorded in the general ledger. We noted that the reconciliation between the Aptify database and the general ledger was not occurring on a monthly or timely basis.

Recommendation: We encourage the Organization to make monthly reconciliations between the Aptify database and the general ledger to ensure the accurate posting of financial information in the general ledger so management and the Board of Directors can make informed decisions throughout the year.

Management's response: The Organization has retained a business consultant who is working with management to develop a strategy and roadmap to ensure that the financial system will integrate with the existing database.

Expense Reimbursements (Significant Deficiency)

Observation: We noted during our fieldwork that certain expense reports/credit card bills were being reimbursed without proper supporting documentation.

Recommendation: The Organization should establish controls and procedures to ensure consistent adherence to the Organization's policies and Internal Revenue Service guidelines for expense reimbursements. A few suggestions of the items that should be considered moving forward:

- No expense reimbursements should be made without proper supporting documentation for appropriate transactions.
- No expense reimbursements should be made without business purpose for each item being adequately documented.
- The Treasurer or another member of the Board of Directors should be responsible for approving the expense reports of the Executive Director in accordance with the Organization's policies and Internal Revenue Service guidelines.
- The Organization should consider obtaining corporate credit cards for appropriate employees. This would eliminate these individuals having to use their personal credit cards for work. All the transaction records would be property of the Organization which could facilitate easier review and accounting for these transactions.
- The Organization should consider the use per diem for meal reimbursements in appropriate scenarios.

Management's response:
Management has reviewed the recommendations with the NPMA executive committee and has implemented changes to address these recommendations, including the utilization of an expense reporting tool.

PRIOR YEARS' COMMENTS

New Accounting Standards (Informational Comment)

Observation: The Financial Accounting Standards Board (FASB) recently issued a new standard ("Accounting Standards Update (ASU) *No. 2016-14, Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities")* that refreshes current accounting policies to better portray an organization's financial story by simplifying the face of the financial statements and improving financial performance communication. The changes are effective for fiscal years beginning after December 15, 2017, with early implementation permitted.

The following is a summary of the major changes addressed in the new accounting standard:

Net Assets

- the three existing classes of net assets (unrestricted, temporarily restricted, and permanently restricted) will be replaced with two new classes: 1) net assets with donor restrictions and 2) net assets without donor restrictions
- additional disclosures about the type, purpose, and amount of board-designated net assets (which will be included within net assets without donor restrictions) will be required

Liquidity

- quantitative information about an organization's "financial assets" that are available for general expenditures within one year of the balance sheet date will be disclosed
- qualitative descriptions of how an organization manages its resources in order to meet liquidity needs and manage liquidity risk will also be disclosed

Expense reporting

- expenses will be reported by both natural and functional classifications
- methods used to allocate costs among program and support functions will be disclosed
- the ASU provides a definition of "management and general" and provides guidance regarding what costs are allocable

Investment income

- investment returns must be reported net of external and direct internal investment expenses
- disclosure of the components of investment return (interest, dividends, gains and losses) is no longer required

In addition, "underwater endowments" will now be included in net assets with donor restrictions and the "placed-in-service" approach must be used when releasing restrictions related to a long-lived asset, unless the donor explicitly limits the use of the asset for a period of time.

Recommendation: We recommend that the Organization review these changes and consider the impact in preparing the financial statements in the future. We have provided newsletter articles and client seminars on these changes and will continue our educational efforts as the implementation date approaches. If we can be of any assistance to the Organization, please let us know. For the entire standard, please visit www.fasb.org.

Management's response: Management will review the new standard noted and assess the impact on the Organization's financial statement presentation for the future

General Ledger Account/Audited Financial Statement Reconciliations (Control Deficiency in 2015, upgraded to Significant Deficiency for 2016, considered as a Control Deficiency again in 2017, material weakness in 2018)

2015 Observation: During the audit, we noted that several underlying schedules relating to inventory, investments, Bugstore sales, and contribution revenue did not agree to the general ledger balance as of June 30, 2015. As well, we noted that the beginning net asset balance within the general ledger did not agree to the ending balance reported in the 2014 audited consolidated financial statements due to an error identified and corrected by management during the 2014 audit but not reported to the auditors.

The general ledger represents the accounting record of the Organization's financial transactions and is the source document for preparation of the consolidated financial statements. Thus, it is important that the general ledger be accurate on a consistent basis in order for management and the Board of Directors to make informed decisions.

2015 Recommendation: We recommended that management reconcile the general ledger balances with any related underlying schedules on a quarterly and year-end basis to ensure the accuracy of the general ledger balances.

2016 Observation: During the audit, we noted similar instances of a lack of reconciliation between the general ledger and the underlying schedules as were noted in the prior year and referenced above. Twenty-two adjustments were recorded for the June 30, 2016 audit, which is an indicator of the Organization's lack of preparedness for the audit.

2016 Recommendation: We recommended that management reconcile the general ledger balances to the underlying schedules on a monthly basis to ensure the accuracy of the general ledger balances. Additionally, the Organization should create a system of controls and procedures to ensure that the required reconciliations are completed accurately and within required completion dates.

2016 Management's response: Management takes this very seriously and will make reconciling the general ledger accounts a priority for the accounting department in the coming year.

2017 Observation: During the audit, we noted certain reconciliations between the general ledger and the underlying schedules were not completed correctly. As noted in the required communications letter, we proposed and management recorded ten audit adjustments for the year ended June 30, 2017. We also proposed and management recorded nine reclassifying adjustments for the year ended June 30, 2017.

2017 Recommendation: We continue recommend that the Organization prepare and review the reconciliations of the underlying accounting schedules to the general ledger on a monthly basis to ensure the accuracy of the general ledger balances and that management is equipped with timely, accurate financial information.

2017 Management's response: The number of audit journal entries has been reduced from twenty two in the prior year to ten during the current year's audit. This indicates that management has continued to strengthen this process and will implement controls to further improve the process for this current year.

2018 Observation: Considered to be a material weakness in 2018 – see first comment in current year.

This information is intended solely for the information and use of the Board of Directors, management, and others within the National Pest Management Association, Inc. & Affiliate and is not intended to be and should not be used by anyone other than these specified parties.

Tate & Tryon