



### What is an internal audit?

The internal audit required by law is an annual audit of all conservation district accounts per procedures prescribed by the Conservation Commission. Because there are additional statutory duties placed on supervisors and conservation districts, the internal audit also looks at proper execution of those functions.

### Required by law

RCW 89.08.210: *"...The supervisors shall provide for the execution of surety bonds for officers and all employees who shall be entrusted with funds or property. The supervisors shall provide for the keeping of a full and accurate record of all proceedings, resolutions, regulations, and orders issued or adopted. The supervisors shall provide for an annual audit of the accounts of receipts and disbursements in accordance with procedures prescribed by regulations of the commission..."*

### Required

1. At least once a year, your conservation district must perform an internal audit for the previous fiscal year.
2. The report of internal audit must be accepted by the Board of Supervisors, and a copy of the report must be provided to the Washington State Conservation Commission.
3. The checklist, action plan, and report must be made available to the Washington State Auditor, the Washington State Conservation Commission, or their representatives upon request.

### Recommendation

Take the internal audit process seriously. It presents an opportunity to document appropriate management of public assets by your Board and employees. The Board of Supervisors is the body responsible for the operation of the conservation district. An internal audit performed every year assures that board members remain aware of the way district business is transacted and recorded.

### Risks

1. Failure to file the signed report of internal audit may prevent the Conservation Commission from honoring vouchers and funding requests.
2. Failure to perform an internal audit could allow procedural errors, fraud or theft to be undetected.

### Format and steps

This internal audit form is divided into several sections, allowing several individuals to work on separate pieces at the same time.

- The main body of the form consists of numbered questions in a checklist format. See the guidance for more information about each question.
- Issues and Actions: At the end of the questions section is space for you to record issues and questions, and identify action steps to resolve them.
- Report: The last page is a form you can use to report completion of your internal audit to the Washington State Conservation Commission.
- Guidance: Please see the included guidance document for more information about individual internal audit questions.

**CONSERVATION DISTRICT INTERNAL AUDIT CHECKLIST**

Reference	Question	Answer
<b>A – ACTIONS AND REPORTS</b>		
RCW 89.08.210	1. Are official minutes of all regular and special board meetings available for review?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
RCW 89.08.210	2. Are motions made, seconded, and passed (or not passed) recorded in minutes?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	3. Are resolutions such as for setting your election kept with the minutes?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	4. Are treasurer reports included with minutes?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
<b>B – PROTECTION OF PUBLIC FUNDS AND ASSETS</b>		
BARS	5. Are all bank or vendor accounts only in the name of the conservation district?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	6.. Do all credit cards show the name of the conservation district on them?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	7. Are all authorized signers on those accounts current?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
RCW 39.58	8. Are all funds held in approved financial institutions?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	9. Are all persons who handle public funds or sign checks adequately bonded?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	10. Are original bank statements available for review?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
<b>C – REVENUES AND RECORDING</b>		
BARS	11. Is money received from all sources receipted in the receipt book?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	12. Is the mode of payment noted on the receipt (cash, check, EFT, direct deposit)	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	13. Do receipts for EFTs show correct BARS codes?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	14.. Does the transaction journal show BARS codes and receipt numbers?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	15. Is the District name pre-printed on receipts?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	16. Are receipts in the receipt book sequentially numbered?	Yes    No    NA
Best practice	17. Is sales tax listed on a separate line on receipts?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	18. Are deposits held in sealed bags or similar secure containers until deposited?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	19. Are deposits made the same day as received?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	20. Are deposits made by someone other than the person who receipted the money?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
<b>D – DISBURSEMENTS AND RECORDING</b>		
BARS	21. Are funds only disbursed after approval by the Conservation District Board?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	22. Are all checks accounted for (including unused/voided/cancelled checks)?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	23. Are voided checks physically altered and available for inspection?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	24. Do cancelled checks contain at least two approved signatures?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	25. Is at least one signatory on each check a Board Supervisor?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	26. Are fronts and backs of cancelled checks available for inspection?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA

BARS	27. Is the check register up-to-date and balanced at least monthly?	Yes No NA
Best practice	28. Accounts reconciled and presented at each regular board meeting?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No NA
Best practice	29. Are original bank statements made available for inspection?	Yes No NA
BARS	30. Do deposits identify the source of funds?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
Best practice	31. Is the endorsement on each cancelled check consistent with the payee on the front?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
Best practice	32. Are unexpected and unusual payees present in the check register or on checks analyzed each board meeting?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
<b>E – PAYROLL AND TAX RECORDS</b>		
L&I	33. Quarterly payments were filed with the Department of Labor and Industries and match payroll records?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
ESD	34. Unemployment Insurance was paid for all employees to Employment Security Dept. and payments match payroll records?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
IRS	35. Tax withholding payments were made to the Internal Revenue Service and match payroll records?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
IRS	36. Payments were made to Social Security/Medicare or to a qualified 403(b) plan and match payroll records?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
BARS	37. If sales tax was collected, was it BARS coded as pass-through funds?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
BARS	38. If sales tax was collected, was it remitted to the State Department of Revenue?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
<b>F – PETTY CASH</b>		
Best practice	39. Does the district have a written policy and procedure for purchasing incidental supplies between board meetings?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
	40. Does your district use a petty cash account or fund? If yes, answer the following questions. If no, skip to Section G.	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
BARS	41. Is there a Board resolution on file that authorizes a petty cash account and amount?	<input checked="" type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> NA
BARS	42. Is the petty cash in the box maintained at the amount authorized by the board?	Yes No NA
BARS	43. Is petty cash physically secured to prevent unauthorized access?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	44. Is a separate balance book used for petty cash?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	45. Is the petty cash balance book balanced at least monthly?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	46. Does the cash in the box match the balance in the petty cash balance book?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	47. Are all cash receipts recorded in the District receipt book?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
<b>G – TRAVEL, CREDIT CARDS, AND SHORT-TERM DEBT</b>		
BARS	48. Does the district have a travel reimbursement policy for Supervisors?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	49. Does the district have a travel reimbursement policy for Employees?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
BARS	50. Does the district have a policy and procedures for appropriate use of credit cards?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	51. Are original receipts filed with the District for all credit card purchases?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA
Best practice	52. Are all outstanding loan and credit card balances reported to the Board monthly?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> NA

## **CONSERVATION DISTRICT INTERNAL AUDIT ACTION PLAN**

This action plan is to help you document issues and correct them. It is intended for internal use by the conservation district. Even though this is an internal document, it may be reviewed by the Washington State Auditor or the Washington State Conservation Commission.

<b>H – ISSUES AND ACTION PLAN</b>		
<b>Description of issue and what to do to resolve it</b>	<b>By who?</b>	<b>By when?</b>

## REPORT OF INTERNAL AUDIT

### Conservation District

For the year beginning                      and ending                      :

The Audit Committee examined the conservation district's financial records on                      .

The Committee followed guidance provided in the Budgeting, Accounting, and Reporting System (BARS) manual as published by the Washington State Auditor and the Washington State Conservation Commission. The Committee also followed current guidance for internal audits provided by the Washington State Conservation Commission.

The Audit Committee believes the financial statements and records of the conservation district present fairly the assets, liabilities, and fund balances arising from cash transactions of the conservation district, and the cash receipts and disbursements, and the cash receipts and disbursements, for the year audited.

Audit Committee participants are listed below.

Name and signature	Position
	Conservation Commission staff

The checklist, action plan, and report must be made available to the Washington State Auditor, the Washington State Conservation Commission, or their representatives upon request.

## GUIDANCE FOR INDIVIDUAL QUESTIONS

### SECTION A: Actions and Reports

#### ***1 – Are minutes of all open board meetings available for review?***

RCW 89.08.210 says, in part: “The supervisors shall provide for the keeping of a full and accurate record of all proceedings, resolutions, regulations, and orders issued or adopted.”

Meetings of conservation district boards are subject to the Open Public Meetings Act (RCW 42.30) which requires regular and special meetings to be open to the public.

#### ***2 – Are motions made, seconded, and passed or not passed recorded in minutes?***

RCW 42.30.020 says “‘Final action’ means a collective positive or negative decision, or an actual vote by a majority of the members of a governing body when sitting as a body or entity, upon a motion, proposal, resolution, order, or ordinance.”

Thus, some formal system of reaching a positive or negative decision is required. Conservation districts generally use some form of Roberts Rules of Order to make these decisions. Since supervisors are tasked with keeping a full and accurate record of proceedings, the way these decisions are reached need to be recorded in the minutes.

This question should not be interpreted as meaning your conservation district may only make decisions by voting on motions. Consensus is a perfectly valid way to make group decisions, but when that method is used, it should be reflected in the minutes. Example: “A proposal to proceed with applying for an Ecology grant to protect water quality in the Mytown Watershed was discussed, and approved by consensus of the Board of Supervisors with no dissent.”

#### ***3 – Are resolutions kept with the minutes?***

See the answer to question 1 above.

#### ***4 – Are treasurer reports included with minutes?***

Budgeting, Accounting, and Reporting System (BARS) standards require the treasurer reports to be included with minutes: “A monthly Treasurers Report should be prepared and reviewed at every monthly conservation district board meeting, approved by the board, and included as part of the district meeting minutes.” Reference: BARS manual, Cash Receipting, Section 3 Internal Controls.

### SECTION B: Protection of Public Funds and Assets

#### ***5 – Are all accounts only in the name of the conservation district?***

Public assets should not be held in the name of private individuals or entities. You should review bank statements to be sure all accounts, certificates, and any other financial instruments are listed only in the name of the conservation district, and not in the name of individuals.

#### ***6 – Do all credit cards show the name of the conservation district on them?***

**7 – Are all authorized signers on those accounts current?**

Making sure only authorized individuals are signers on bank accounts is the one single internal control to prevent loss. Authorized signers of district accounts should only be current district members. When a new member is authorized, or when a previously authorized signer parts with the district, the appropriate financial institutions should be notified immediately.

**8 – Are all funds held in approved financial institutions?**

RCW 39.58.020 says: “All public funds deposited in public depositories, including investment deposits and accrued interest thereon, shall be protected against loss, as provided in this chapter.” What’s a public depository? Essentially, it’s a bank approved for use by public agencies in the State of Washington. You can find a list of those banks at <http://tre.wa.gov/PDPC/pdpc.htm> and you should confirm that every bank your conservation district uses is listed as an approved public depository.

**9. Are all persons who handle public funds adequately bonded?**

BARS requires: “The treasurer and auditor must be bonded in an amount determined by the board, but not less than fifty thousand dollars.” Reference: Expenditures and Disbursements, District Internal Control Powers and Duties.

BARS also states: “A district may provide and require a reasonable bond of any other person handling moneys or securities of the district, if the district pays the premium.”

It is the Conservation Commission’s position that every public official and deputies of such officials should be bonded if they handle public funds.

**10. Are original bank statements available for review?**

It is important that source documents be available for review by conservation district officials. Source documents are original versions of key documents. Examine original bank statements – not copies – to be certain no entries have been altered. This is also a good opportunity to look for missing checks and affirm the account is only in the name of the conservation district.

**SECTION C: Revenues and Recording**

**11 – Is revenue from all sources receipted in the receipt book?**

Your conservation district receipt book is a go-to resource to determine all conservation district revenues. All revenues should be receipted. With an up-to-date receipt book and a current check register, basic conservation district accounts can be reconstructed. The receipt book also forms part of the source document chain as it shows how much was received, the source of funds, the date, and who received the funds.

BARS requires receipting of all district revenues. Reference: Revenues and Receipts, Cash Receipting.

**12 – Is the mode of payment noted on the receipt (cash, check, money order, credit card)?**

BARS requires: receipt forms must include (manual or automated): Name of payer (address if feasible); Amount received; Mode of payment (cash, check, EFT, other); Purpose of payment; Name of employee who prepares receipt. Reference: Revenues and Receipts, Cash Receipting.

**13 – Do receipts for EFTs show correct BARS codes?**

Including the BARS code on receipts is often viewed as a time-consuming practice. However, it helps connect the chain from inflow of funds to your conservation district accounting system. As explained for question #9, thorough receipt information is key to helping reconstruct the district accounts.

BARS suggests: if receiving money by EFT that the district prepare a receipt including the BARS account number. Reference: Revenues and Receipts, Electronic Funds Transfer.

**14 – Does the transaction journal show BARS codes and receipt numbers?**

Your conservation district transaction journal is a go-to resource to determine all conservation district financial transactions. By adding additional documentation to disbursements and revenues the source documentation chain is strengthened. It helps connect the chain of inflow and outflow to your accounting system. Again, another tool to helping reconstruct district accounts.

**15 – Is the District name imprinted on receipts?**

According to the BARS manual: "Receipt forms must be pre-printed, pre-numbered, duplicate." Reference: Revenues and Receipts, Cash Receipting.

**16 – Are receipts sequentially numbered?**

See the guidance for question #10.

**17 – Is sales tax listed on a separate line on receipts?**

This is a Conservation Commission requirement, to help conservation districts keep pass-through funds separate from revenues.

**18 – Are deposits held in sealed bags or similar secure containers until deposited?**

BARS requires: "Cash receipts should be properly protected during the operating day and, if they cannot be deposited that day, secured overnight." Reference: Revenues and Receipts, Cash Receipting.

**19– Are deposits made the same day as received?**

As noted in the guidance for question #14, it is safer to deposit revenues the same day they are received.

**20 – Are deposits made by someone other than the person who receipted the revenues?**

BARS guidance states: "The deposit should be prepared by someone other than the person who received the payment." Reference: Revenues and Receipts, Cash Receipting.

**SECTION D: Disbursements and Recording**

**21 – Are funds only disbursed after approval by the Conservation District Board?**

The conservation district board of supervisors must approve disbursements before they are paid. Reference: BARS, Expenditure and Disbursements, Voucher Certification and Approval.



**22 – Are all checks present/accounted for?**

BARS states: “Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”

Missing checks create unanswered questions about the status of those checks. Unused, voided, cancelled, or damaged checks should be retained to avoid any ambiguity.

**23 – Are voided checks physically altered and available for inspection?**

BARS doesn’t speak directly to voided checks or warrants, but the principle they apply to receipts should also be applied to checks and warrants: “If a receipt is voided, the original and any copies of that receipt must be retained.”

The same argument as used for missing checks in the guidance for question #18 applies to question #19.

Physically altering voided checks prevents the checks from being processed by automatic machines. We recommend using a paper punch to make holes through the magnetic encoding on the check, and through the signature, if present.

**24 – Do cancelled checks contain at least two approved signatures?**

While BARS does not require two approved signatures, the Conservation Commission strongly recommends this practice. Your bank may not care if there is one or two signatures, but the two-signature requirement helps avoid misappropriation of funds. It serves as an easy cross-check on the amount and recipient of conservation district payments.

**25 – Is at least one signatory on each check a Board Supervisor?**

As explained in the guidance to question #20, cross-checks are an important safeguard for the conservation district. Having a Board Supervisor as one of the signatories on a check is another way to help protect public funds.

**26 – Are fronts and backs of cancelled checks available for inspection?**

While not required, it would be a best practice to review checks for possible deviations and fraudulent activities in order to confirm correct payee endorsement.

**27 – Is the check register up-to-date and balanced at least monthly?**

BARS states: “A monthly Treasurers Report should be prepared and reviewed at every monthly conservation district board meeting, approved by the board, and included as part of the district meeting minutes.”

Regularly balancing your check register is a vital step to avoid overdrawing your account, and to allow early detection of fund problems.

**28 – Accounts reconciled and presented at each regular board meeting?**

It is important to reconcile your bank statement with your check register. Specifically, you should total the checks written and cleared in the time period reflected on your bank statement. Add in any deposits that occurred during the time period. Your reconciled total should match the total for bank activity reported for the same period.

**29 – Are original bank statements available for inspection?**

**30 – Do deposits identify the source of funds?**

While not required by BARS, it is our experience that it is much, much easier to review records or reconstruct accounts if deposits identify the source of funds. It is simply a good practice.

**31 – Is the endorsement on each check consistent with the payee on the front?**

When checking cancelled checks/warrants, also look at the endorsement on the back of the instrument. The endorsement should match the name of the payee. This may not be the case when checks are written to companies, but for checks written to individuals, question any instances where the endorsement and payee are different.

**32 – Are unexpected and unusual payees present in the check register or on checks analyzed each board meeting??**

Are there company names or individuals listed in the check register, or on cancelled checks, that you don't recognize? Ask for source documents so you can determine the payments were made appropriately.

**SECTION E: Payroll and Tax Records**

**33 – Quarterly payments were filed with the Department of Labor and Industries and match payroll records?**

**34 – Unemployment Insurance was paid for all employees to Employment Security Dept. and payments match payroll records?**

**35 – Tax withholding payments were made to the Internal Revenue Service and match payroll records?**

**36 – Payments were made to Social Security/Medicare or to a qualified 403(b) plan and match payroll records?**

**37 – If sales tax was collected, was it BARS coded as pass-through funds?**

**38 – If sales tax was collected, was it remitted to the State Department of Revenue?**

**SECTION F: Petty Cash**

**39 – Does the district have a written policy and procedure for purchasing incidental supplies between board meetings?**

**40 – Does your district use a petty cash account or fund? If yes, answer the following questions. If no, skip to Section G.**

**41 – Is there a Board resolution on file that authorizes a petty cash account and amount?**

**42 – Is the petty cash in the box maintained at the amount authorized by the board?**

**43 – Is petty cash physically secured to prevent unauthorized access?**

**44 – Is a separate balance book used for petty cash?**

**45 – Is the petty cash balance book balanced?**

**46 – Does the cash in the box match the balance in the petty cash balance book?**

**47 – Are all cash receipts recorded in the District receipt book?**

**SECTION G: Travel, Credit Cards, and Short-term Debt**

- 48 – Does the district have a travel reimbursement policy for Supervisors?***
- 49 – Does the district have a travel reimbursement policy for Employees?***
- 50 – Does the district have a policy and procedures for appropriate use of credit cards?***
- 51 – Are original receipts filed with the District for all credit card purchases?***
- 52 – Are all outstanding loan and credit card balances reported to the Board monthly?***