Larson Gross

To Management and the Board of Directors
Washington Association of Conservation Districts
711 Capitol Way South, Suite 707
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In planning and performing our audit of the financial statements of Washington Association of Conservation Districts (the Association) 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 Association'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 the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal controls 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 Association's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Association's internal controls to be material weaknesses:

Supervisory Review of Accounting
The Financial Accounting & Human Resources Administrator's (the Bookkeeper) duties include creating original source documents (purchase orders, checks, etc.) generating checks, recording the entries into the general ledger, and making adjustments to the general ledger. Usually, there is limited or no review of the Bookkeeper's work. This represents a lack of adequate segregation of duties in the accounting process. The Bookkeeper has demonstrated the ability to account for day-to-day activity, but we believe that additional assistance and controls are needed over the accounting function.

As a result of our audit procedures, we noted the following specific break-downs in internal control resulting from this deficiency:

- Cash disbursements – Checks written near year-end were not written in numerical sequence, resulting in one check was held at year-end. Tight control should be maintained over used and unused checks to prevent misuse and to make sure that all checks issued are recorded in the appropriate period. Periodically, the sequence of used and unused check numbers should be accounted for.

- Bank reconciliations – The bank reconciliations and supporting documents are reviewed by the General Manager who is also involved with cash receipts, deposits, and check signing. The reconciliation should be thoroughly reviewed monthly by someone other than a preparer of the deposits and a person preparing checks. This will reduce the risk that misappropriation of cash assets could be concealed.

- Investment statements – Although the Bookkeeper records investment activity per the statements to the general ledger timely, there is no review of the statements and reconciliation. A person other than the Bookkeeper should be reviewing, on a monthly basis, the reports provided by the custodian and comparing them with the summarized activity within the general ledger to highlight any variances.

- Transactions outside the accounting system:

    - Membership dues receivables – Membership dues are accounted for outside of the accounting system, resulting in an audit adjustment to first record the receivables and then write off the bad debts. Recording all dues receivable in the accounting system would allow management to decide whether to try and collect on unpaid receivables in a timelier manner.

    - Accrued vacation – An Excel spreadsheet had historically been used to track accrued vacation hours in excess of the Association's time-off carryforward policy outside of the accounting system. This was discovered during 2018 and the Board decided to pay employees for this significant time-off excess carryforward.

  These separate tracking spreadsheets are outside the scope of the system controls for accuracy and completion. All transactions should be accounted for within the accounting system to ensure they are covered by the Association's internal controls in order to increase the dependability and accuracy of the information and to ensure that all users of financial information are working from the same information in order to make wise, informed decisions in their respective responsibilities.

- Journal entry review – General journal entries are recorded by the Bookkeeper, but lack proper review approval by a responsible individual. We recommend the adoption of a policy whereby all journal entries will be approved by a designated member of management or the Board of Directors. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

From our discussions with management throughout the audit, we are not aware of any additional current employees with an adequate accounting background to step in and assist the accounting department. We recommend that a part-time controller (or similar part-time contract position) be retained to authorize accounting transactions, supervise the Bookkeeper's work, and review statements for accuracy. The addition of a controller would increase the controls over the Association's accounting functions and would also be an additional resource for the Executive Director and the Board of Directors by providing them with budgets, analyses, and other reports that could be useful in making decisions. We believe this is especially important given the physical distance between the Executive Director's office (Olympia) and where the accounting function is maintained (Bow).

We want to thank management and staff for the assistance they were able to provide us in completing the audit in a timely manner.

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

Larson Gross PLLC

Bellingham, Washington
September 13, 2018