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# Audit Report

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Lake George Historical Association

For the Period

January 1, 1999 through December 31, 1999

SP-1000-1

March 30, 2001

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**The University of the State of New York**  
**THE STATE EDUCATION DEPARTMENT**  
**Office of Audit Services**  
**Albany, New York 12234**





THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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March 30, 2001

Mr. Stephen C. Miller  
President  
Lake George Historical Association  
Box 472  
Lake George, New York 12845

Dear Mr. Miller:

The following is our final audit report (SP-1000-1) on the Lake George Historical Association for the period January 1, 1999 through December 31, 1999. The audit was conducted pursuant to Section 215 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from the issuance of the final audit report. Appendix C describes the process to be followed in the event of such disagreement.

Ninety days from the issuance of this report, Lake George Historical Association officials will be asked to submit a report on actions taken as a result of this audit.

I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

Daniel Tworek

Enclosure

cc: Commissioner Mills, R. Cate, C. Huxley, T. Sheldon, C. Siegfried, D. Palmquist, C. Foster  
(DOB)

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# Executive Summary

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## **Background and Scope of the Audit**

The audit examined the Lake George Historical Association's (Association) financial records, financial statement review, mission, and governance structure for the period January 1, 1999 through December 31, 1999. This was a financial related audit and the objectives were to: examine the design and accuracy of the Association's accounting system, review prepared financial statements for the period, learn the Association's mission concept, and gain insight into the governance structure of the Association.

## **Audit Results**

Presented below is a summary of the audit findings developed in response to the objectives.

- Due to its small size, the Association lacks separation of some incompatible financial duties.
- Bank reconciliations are not done on a regular or formal basis.
- A complete accession inventory record could not be obtained.
- There was no written policy concerning long distance telephone usage by employees.
- The Association needs to file 1998 and 1999 Annual Report Forms and Financial Summaries with the Office of External Services of the New York State Museum.

## **Association Comments**

Association officials agreed with the findings. Their response is included as Appendix B to this report.

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# Introduction

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## Background

The Lake George Historical Association (Association) received an absolute charter from the New York State Board of Regents on December 19, 1969. The Association is a tax-exempt not-for-profit entity under Section 501c of the Internal Revenue Code. The Association is located in Lake George, New York, and its objectives are:

- To promote the Association and, through it, promote and operate the old Warren County Court House Museum (museum).
- To promote and encourage original historical research.
- To encourage the preservation of historical sites and structures, and to encourage the suitable marking of such places.
- To gather and disseminate information concerning the history of the Lake George region.
- To acquire, preserve, display, and make available for study relics and other memorabilia relating to the early and current history of the Lake George region.

The Association's *Statement of Support, Revenue, and Expenses and Changes in Fund Balance* for the fiscal year ending December 31, 1999 indicates the Association expended \$28,600 and had "Total Support and Revenue" of \$24,219. This resulted in a loss of \$4,381 and a corresponding reduction of the total funds balance from \$39,030 as of December 31, 1998 to \$34,649 as of December 31, 1999.

Its primary source of revenue is a \$7,500 grant from the Town of Lake George. Other sources of revenue are sales of books, membership fees, admission for the museum, and donations.

Expense categories include salary and fringe benefits for one full-time employee, book purchases, insurance, special programs, repairs and maintenance, telephone, and other miscellaneous expenses.

## Objectives, Scope and Methodology

Section 215 of the Education Law states that the Regents, the Commissioner of Education, or their representatives, may visit,

examine into, and inspect any institution in the university and any school or institution under the educational supervision of the State, and may require, as often as desired, duly verified reports therefrom giving such information and in such form as the Regents or the Commissioner of Education shall prescribe. This was a financial related audit and the objectives were to:

- determine if financial records and subsequent financial statements are accurate;
- determine what the Association's mission is and if it is accomplishing that mission;
- verify that only reasonable and necessary costs are incurred; and
- determine that governance is being conducted in accordance with Association by-laws.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed New York State Education Department (Department) and Association staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the Association's compilation of financial statements. A compilation is not an audit or review. We visited the Association on October 24, 2000 and our observations are based on conditions at that time.

We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other audit procedures considered necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions, and recommendations.

## **Comments of Lake George Historical Association Officials**

Association officials' comments about the findings and conclusions were considered in preparing this report. Their comments are included as Appendix B.

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# Internal Controls - Financial and Collections

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A proper system of internal control would separate responsibility for certain activities among more than one individual. In general, functions related to the authorization of a transaction should be separated from responsibility for processing the transaction, recording the transaction, and reviewing the transaction. The Association is hampered in establishing adequate separation of responsibilities by the small size of the organization. There are opportunities to strengthen controls through the establishment of separate responsibilities and, in some cases, by performing other control activities.

## Financial Records

The Association's accounting system consists of a checkbook, sales receipts, sales journal and purchases journal. The Association maintains four bank accounts, an interest bearing checking account, a cash management account, regular savings, and a Certificate of Deposit (Memorial Scholarship Fund).

Three individuals have primary responsibility for all aspects of the financial operation of the Association. At the time of the audit, the Association's manager received cash and other receipts, prepared bank deposits, and maintained the journals and bankbooks. Funds were authorized for expenditure and either the President of the Association or the Treasurer signed the checks. During an on-site interview, the full-time employee, who resigned in May of 1999, stated that bank deposits were not made on a daily basis. In addition, bank reconciliations were not done on a regular basis.

Because of the small size of the Association, specific responsibilities should be established and Board oversight of financial transactions should be encouraged. One control that should be immediately implemented is the monthly preparation of bank reconciliations. This control is most effective if the individual doing the bank reconciliation is independent of the financial operation of the Association. The Association should consider having bank statements, including cancelled checks, mailed directly to a member of the Board for the preparation of the reconciliation. Another control would be the establishment of a committee of Board members to provide a detailed review of all financial transactions. The Association's by-laws call for the establishment of a finance committee. However, the by-

laws also call for the members of the committee to be the Treasurer and two other members appointed by the President. The control would be strengthened if the Treasurer were not a member of the committee. Another possible control would be the development of policies and procedures and job descriptions that define the process to follow in the financing of the Association.

## **Collections**

Similar to financial controls, the Association has a responsibility to provide adequate control over any item it may receive as part of a collection. The audit found control over the inventory of items to be inadequate. The Association does not maintain an inventory that documents the entire collection. Association officials provided a series of forms that are designed to be used to receive items either on loan or as a gift. However, there was no file containing all of the forms.

It is critical that a complete list of all items be maintained and a periodic physical inspection be made to provide assurance that the item is present and in good condition. A review of the Association's insurance policy identifies some items that may be of some monetary value, including a David Lithgow painting, a 1757 powder horn, and an Indian Carbine Springfield Trade Rifle. Controls should be developed to separate the physical possession of the items from the responsibility for accounting for them.

The Association needs to conduct a physical inventory of all items in its possession and reconcile it with all documents describing loaned or donated items. In addition, the Board should establish an acquisitions committee as prescribed in the by-laws.

## **Required Reporting**

To be eligible for museum registration a museum must file an annual report with the Commissioner of Education recording the educational and cultural activities of the museum, and presenting an accurate statement of all financial operations.

The Association has not filed an annual report with the Department since May 1998.

## **Recommendations**

1. Bank deposits should be made on a daily basis.
2. Cash should be kept in a secure area prior to deposit.
3. Job descriptions should be developed to define specific responsibilities related to financial control.
4. The Board should amend the by-laws related to membership of the finance committee.
5. A member of the Board should prepare monthly bank reconciliations.
6. A physical inventory should be conducted of all possessions of the Association. That inventory should be compared with all available documentation, and discrepancies should be identified for follow up.
7. File the required annual reports for the missing years.

## **Comments of Association Officials**

Association officials agree with these recommendations and indicated they have or will implement them.

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# Telephone Usage

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Management is responsible for establishing effective management processes or controls. The Office of the State Comptroller's *Financial Management Guide*, Volume 2, Subsection 11.1010, states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. Also, all resources should be safeguarded against waste, loss and misuse.

A component of an effective internal control structure is to establish written policies and procedures that define management's position and guide employees in performance of their duties. Current, updated policies and procedures allow a comparison of how things are actually done to how they are supposed to be done so that corrections can be made when necessary. The Association does not have a written policy on the personal use of telephones.

A review of telephone usage was conducted for the period December 1998 to October 1999. Approximately 17 percent (\$135) of the \$775 in charges were for long distance calls. No log exists to identify the purpose of the long distance calls. The Association President stated that these charges were predominately for conference calls related to Association business while she was in Florida (\$84). The full time employee of the Association was responsible for a number of personal calls (\$48), and there were some unidentifiable calls (\$4). The accounting records indicate that the full time employee reimbursed the Association by placing cash in the donation receptacle. Because of the use of cash, the reimbursement cannot be verified.

One way to control the use of the telephone is to establish a policy that defines acceptable telephone use and requires a periodic review of the telephone bills.

## Recommendations

8. The Association should adopt a written policy concerning personal use of the telephone.
9. The telephone bills should be reviewed periodically to identify any possible divergence from policy.

## **Comments of Association Officials**

Association officials agree with these recommendations and indicated they have or will implement them.

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# Governance

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A Board of Trustees elected by the members governs the Association. Members of a board owe certain duties to the organization. The duties include care, loyalty and obedience.

The duty of care requires a trustee or board member to exercise a certain degree of diligence, care and skill which an ordinary, prudent individual would use under similar circumstances. Trustees also owe allegiance to the organization and must act in good faith with the best interest of the organization in mind. The trustees also owe a duty of obedience to the organization which gives trustees the responsibility to insure that the organization's resources are dedicated to the fulfillment of its mission.

A review of the minutes of the meetings of the Board disclosed a serious disagreement among members that may have jeopardized the continuing operation of the Association. Specifically, there were two situations in which members seemed to be neglecting their allegiance to the Association.

The first area of concern noted is that some members appeared to have been denied access to financial records related to the operation of the Association. In a small organization, Board oversight is critical to achieving adequate controls. The second area of concern was the use of proxies in the election of trustees. The Association by-laws are silent on the use of proxies.

The trustees need to refocus attention on the achievement of the mission of the Association.

## **Recommendation**

10. Trustees need to fulfill their responsibility to the Association. Reasonable requests for access to records must be honored and by-laws be observed.

## **Comments of Association Officials**

Association officials agree with this recommendation and will implement it.

Contributors to the Audit  
Lake George Historical Association

- James A. Conway, Audit Manager
- Charles Archibald, Senior Auditor

**NEW YORK STATE EDUCATION DEPARTMENT  
OFFICE OF AUDIT SERVICES  
AUDIT REVIEW PROCEEDINGS**

**Requests for Audit Review**

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from a final audit report issued by the Office of Audit Services.

An organization requesting an audit review must make a written application to the Associate Commissioner for Planning and Policy Development, New York State Education Department, Room 128 EB, Albany, New York 12234 within 30 days of receiving the final audit report. An organization may request a review of an audit whenever the final audit report directs the recovery of funds from the organization and one or more of the following conditions is met:

- Recovery of funds would cause immediate and severe financial hardship to the organization, thereby affecting the well-being of program participants;
- The organization's violation was caused by erroneous written guidance from the State Education Department;
- The State Education Department failed to provide timely guidance on the matter or condition when the organization had previously requested such guidance in writing; and/or
- The report contains errors of fact or misinterpretation of laws, statutes, policies or guidelines.

Organizations requesting an audit review must submit a written application describing how one or more of the above conditions have been met. This application must include all evidence and information the organization believes are pertinent to support its position.

An audit report which recommends improvements in internal controls of administrative or financial systems, but has no material financial impact on the organization, will not be considered for an audit review proceeding.

March 15, 2001

Daniel Tworek  
Director  
Office of Audit Services  
The State Education Department  
The University of the State of New York  
Albany, NY 12234

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OFFICE OF  
AUDIT SERVICES

Dear Mr Tworek,

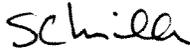
I have reviewed the draft audit report (SP-1000-1) related to the audit of the Lake George Historical Association for the period January 1, 1999 through December 31, 1999. The other members of the Board have also reviewed the draft.

After reviewing the report and the recommendations the Board has elected to respond to each recommendation individually. The responses are attached.

On behalf of the Board of Trustees I would like to thank the State Education Department for their recommendations and state that the LGHA looks forward to working with them in the future. Together we can make this museum successful.

If you have any questions or require additional information, please give me a call at 742-4653.

Regards,



Stephen C. Miller  
President  
Lake George Historical Association

**Recommendation 1.** *Bank deposits should be made on a daily basis.*

Our daily revenue is usually not large enough to justify depositing sums on a daily basis. Our current practice is to review the cash each week and make deposits accordingly. Of course, if we do receive a large sum of money, it is deposited immediately.

**Recommendation 2** *Cash should be kept in a secure area prior to deposit.*

Since the audit we have purchased a cash register with a locking cash drawer for the bookstore. During business hours this register is locked when no one is manning the register. In addition the bookstore is locked when there are no museum personnel staffing it. When the museum is closed the cash is transferred to a cash box in the office. This office, along with the entire museum, is protected by a monitored alarm system.

**Recommendation 3** *Job Descriptions should be developed to define specific responsibilities related to financial control.*

The Association agrees with this and job descriptions will be in place prior to filling any future positions at the museum.

Also, the by-laws are undergoing a comprehensive revision and will detail financial responsibilities. The new by-laws will be submitted to the membership for approval at the next annual meeting in December.

**Recommendation 4** *The Board should amend the by-laws related to membership of the finance committee.*

The Association agrees with this and the comprehensive revision of the by-laws will address this issue.

**Recommendation 5** *A member of the Board should prepare monthly bank reconciliations.*

The Association agrees with this and a new treasurer was elected and he has been, and will continue, to balance all accounts monthly. A report detailing all transactions for the past month is submitted to the Trustees at each regular meeting. Quarterly summaries are also being planned.

Also, accounting software, Quicken Quickbooks Pro 2000, has been purchased and put into use for the 2001 fiscal year. This software will make reports more accurate and make reviews of the books by trustees easier.

**Recommendation 6** *A physical inventory should be conducted of all possessions of the Association. That inventory should be compared with all available documentation, and discrepancies should be identified for follow up.*

The association agrees with this recommendation, however it will require a long time to complete this task. We have accomplished the following thus far:

1. Purchased PastPerfect software to maintain all details of our records as we generate them.
2. A physical inventory of the merchandise for sale has been completed.
3. Volunteers are currently working in the library cataloging our book collection.

**Recommendation 7** *File the required annual reports for the missing years.*

The Association agrees with this and the missing reports will be filed prior to July 1, 2001.

**Recommendation 8** *The Association should adopt a written policy concerning personal use of the telephone.*

The association agrees with this and a policy will be drafted and submitted to the Board for approval at the April 4, 2001 meeting.

**Recommendation 9** *The telephone bills should be reviewed periodically to identify any possible divergence from policy.*

The Association agrees with this and the treasurer has been reviewing the bills since the beginning of the year.

**Recommendation 10** *Trustees need to fulfill their responsibility to the Association.*

The Association agrees with this and this recommendation was read to the Trustees at the March 7 meeting.

Prior to the most recent election of trustees, a large number of the Trustees were members of one family and may have had a conflict of interest when the Association's sole employee was also a member of the same family. The comprehensive revision of the by-laws will address this issue and prevent its reoccurrence.