



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

January 17, 2007

Colonel Robert C. Lilly
President
Adirondack Park Institute
PO Box 256
Newcomb, NY 12852

Re: Adirondack Park Institute
Internal Controls Over Financial Operations
Report 2006-S-64

Dear Colonel Lilly:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 and Article X, Section 5 of the State Constitution, Article II, Section 8 of the State Finance Law, and Section 2803 of the Public Authorities Law, we audited the Adirondack Park Institute's (Institute) system of internal controls over its financial operations for the period January 1, 2005 through August 31, 2006.

A. Background

The Institute was created as a not-for-profit corporation in 1989 to provide enhanced environmental educational and interpretive opportunities to schools, area visitors, children and their families. The Institute accomplishes this mission primarily through a partnership with the two Visitors' Interpretive Centers operated by the Adirondack Park Agency (APA) and located in Newcomb and Paul Smiths, New York. The Institute is governed by a twelve-member Board of Trustees, all of whom serve without compensation. The Institute employs an Executive Director and approximately six seasonal interns. In 2005, donations and memberships accounted for almost all of the Institute's \$74,000 budget.

B. Audit Scope, Objectives and Methodology

The Institute's management is responsible for establishing and maintaining an effective system of internal controls. The objectives of our audit were to verify the nature of the Institute's relationship with the APA and to assess the adequacy of the Institute's system of internal controls over its financial operations. To accomplish these objectives, we interviewed appropriate Institute officials and reviewed applicable policies and procedures governing the following significant financial operations: revenue and collections, cash and investments, payroll, procurement and contracting, equipment and asset management, budgeting and expenditure control, accounting and information systems and corporate governance. We interviewed Institute staff responsible for these

financial operations and did limited compliance testing to provide assurance the Institute's employee follows established policies and procedures.

Our audit was conducted in accordance with generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess Institute operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records, and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings and conclusions.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

C. **Results of Audit**

We found that the Institute's fiscal operations are independent of APA influence. The Institute has a separate Board of Trustees that develops its annual budget and the Institute neither receives any funds from APA nor expends any funds upon APA's direction. We also found that the Institute's system of internal controls over its financial operations is adequate in most material respects. However, we noted the following instances in which the Institute could improve its system of internal controls.

- To reduce the risk of improper transactions, management should normally separate duties so no individual can perpetrate and/or conceal these transactions. In a small organization where separation of duties is impractical, a compensating control should be established. The Executive Director, as the Institute's sole employee, controls all financial activities, including procuring, billing, collecting, recording, reporting and investing. The Institute has an annual audit of its financial records performed by a public accounting firm; however, the Board has not established any other, more routine compensating controls to detect errors or irregularities. Without more routine monitoring and oversight, such as requiring bank statements be sent directly to the Treasurer for reconciliation, the Institute's assets are more susceptible to potential theft or mismanagement.
- To limit the risk of theft, funds collected should be secured prior to deposit in the Institute's bank account. We found that collections are either stored in an unlocked drawer or taken home with the Executive Director until they can be deposited.

- To ensure the security of sensitive data from unauthorized access, the Institute should establish both physical and access controls. We found that the Institute has software applications containing privileged information, including employees' Social Security numbers, donors' credit card and contact information, and Institute certificate of deposit and other bank account numbers, stored on computer software that is not password protected or encrypted. In addition, the office doors are not always locked, and the doors to the Institute's headquarters, located in Newcomb's Town Hall, are always open during business hours, even when someone steps out, leaving the Institute vulnerable to theft. This lack of security increases the risk of data theft and misuse.
- To ensure the security and recoverability of critical data contained on information systems, the Institute should establish formal backup and recovery plans. The Institute has no such plans or procedures in place. As a result, critical data may be lost in the event of a disaster.

Recommendations

1. *Establish policies and procedures to provide routine monitoring and oversight of financial transactions.*
2. *Require funds be stored in a secure location, such as a lockbox or safe, prior to deposit.*
3. *Establish policies and procedures to promote physical and access security over sensitive data.*
4. *Establish backup and recovery plans for critical data.*

We provided a draft copy of this report to Institute officials for their review and comment. Their comments were considered in preparing this report. A complete copy of the Institute's response is included as Appendix A.

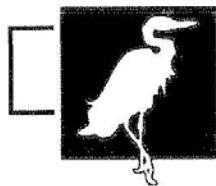
Major contributors to this report were Joel Biederman, Jessica Turner and W Sage Hopmeier.

We wish to thank the management and staff of Adirondack Park Institute for the courtesies and cooperation extended to our auditors during this audit.

Yours truly,

John F. Buyce, CPA
Audit Manager

cc: Jennifer Fregoe-Fifield, Executive Director
Lisa Ng, Division of the Budget



THE ADIRONDACK PARK INSTITUTE, INC.

"Teaching a generation to care"

November 29, 2006

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Executive Director
Jennifer Fregoe-Fifield
P.O. Box 256
Newcomb, NY 12352

Dear Mr. Buyce,

As a result of the NYS audit, the board has enacted the following policies to be implemented over its internal financial operations.

The following policies and procedures for the Adirondack Park Institute are to be instituted as follows:

1. The Treasurer will reconcile all monthly bank statements.
2. An annual audit will be conducted by a board approved accounting firm.
3. End of month financial reports will be generated for the President and Treasurer.
4. Funds are to be stored in the Newcomb Town Hall safe until deposited at the bank.
5. Computer data files are to be backed up monthly onto two CDs. One is to remain in the office, the second to go into offsite secured storage.
6. The door of the API office will be closed and locked when the Executive Director is not in the building.

Thank you for your comments and suggestions.

Sincerely,

Jennifer Fregoe-Fifield
Executive Director