

July 10, 2015

Board of Directors
Lincoln County Animal Shelter
Edgecomb, Maine

We were engaged to investigate and identify possible past irregularities in the financial records of Lincoln County Animal Shelter (the Organization). We understand that the financial condition of the Organization has deteriorated in recent years and also because of a prior lack of internal controls at the Organization, there is concern for the potential for embezzlement at the Organization.

OBJECTIVES

The objectives of the investigation were to:

1. Review transactions and determine the amount, if any, of potential loss to the Organization.
2. Obtain an understanding of the procedures in place for the period of the investigation and offer recommendations for improvements in procedures.
3. Provide a report summarizing our findings.

SCOPE OF THE INVESTIGATION

The scope of our investigation was limited to the information provided by the Lincoln County Sheriff's Office.

CONCLUSION

The following items appear to be potential questionable transactions.

- The cash amount on the deposit slip and deposit made on November 5, 2013 to The First was changed from \$4,415 to \$806, a reduction in the deposit amount of \$3,609.
- There was a total of \$139.90 paid to Romance Bill.com. We were not able to identify the nature of the goods or services received by the Organization.
- We noted check number 4581 from The First dated September 23, 2010 was payable to Signal Point Condo Association in the amount of \$5,000. The memo of the check was "repay of loan." We found a check from Signal Point for \$5,000 dated August 7, 2010 and noted that this was deposited to The First on August 9, 2010. We noted that the former treasurer signed the check. We also noted that the bank balance had an overdrawn balance from August 3, 2010 to August 5, 2010.

As a result of our work we found several areas in which the business practices of the Organization should be considered for change to help improve internal control to safeguard the assets of the Organization and to help improve governance of the Organization. The following summarizes our comments and suggestions concerning those matters.

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Small Organization Environment Internal Controls

A common issue for many small organizations is maintaining effective internal controls with limited personnel. The responsibilities can include all aspects of the operations, collecting receipts and making deposits, initiating some of the expenses with vendors, paying vendor invoices and all accounting and reconciliation functions. Segregation of duties is desired in order to maintain effective internal control, or checks and balances, to timely detect errors and/or fraud. It is important to understand that no system of internal control can completely prevent fraud or errors from happening. However as long as there are effective checks and balances that are regularly performed, errors and/or fraud should be detected sooner rather than later. Proper internal control would provide for a segregation of these duties between unrelated individuals. If the Organization has only one employee performing the accounting function, it is not possible to segregate these duties without involvement of the Board of Directors or a designated member of the Board of Directors. We have a couple of recommendations that would improve controls with respect to this issue.

Establish a Conflict of Interest Policy

We found that the former Treasurer was compensated a total of \$34,580.40 over a three to four year period for bookkeeping services, working at the thrift store and was also reimbursed for mileage. The Internal Revenue Service does not prohibit compensation to board members; however the potential for the appearance of a conflict of interest should be avoided. We recommend that the Organization adopt a formal conflict of interest policy and that the policy be signed by all board members annually. If in the future there is a decision to compensate a board member, the Board should take into consideration the conflict of interest policy and the decision should be well documented in the minutes of the Board of Directors meetings.

Bank Statement Reconciliations

There should be a formal and documented monthly bank reconciliation that is performed in a timely manner. The reconciliation will provide detail on the outstanding deposits and checks that will prove the ending bank balance agrees to the balance recorded in the general ledger. In addition, the bank reconciliation should have evidence of the date of preparation, initials of the preparer, and should be submitted to the Board of Directors or a designated member of the Board of Directors monthly for review and approval. A formal reconciliation and approval process will provide for improved accountability over cash and maintenance of the general ledger. The investment statements should be reconciled in a similar manner.

Request for Payment and Vendor Invoices

Invoices should be properly approved before payment. We suggest that a Request for Payment form be created and all invoices should be attached to these completed and signed forms. There should be no exceptions and in addition, any travel or other reimbursement should also be documented with a signed form. Any requests for payment should be denied if the Request for Payment form is not completed by the requester.

The Request for Payment form with the attached invoices should be attached and maintained with the corresponding check run listing so that they can be easily tracked and located once payment has been processed.

Pre-Approval of Significant Expenses

We recommend that the Organization create a policy that expenses over a certain dollar threshold be pre-approved by the Board of Directors or a designated member of the Board of Directors. The pre-approval could be done via e-mail communication. The Shelter Manager should notify the Board of Directors or a designated member of the Board of Directors of the expense and provide any information considered necessary to determine approval. Once the expense has been approved, the e-mail communication should be printed and retained with the invoice and check run listing.

Check Signing and Check Run Listing Approval

A listing of all invoices to be paid should be provided to the Board of Directors or a designated member of the Board of Directors for review and approval prior to payment. The listing should include the name of the vendor, the nature of the expense, which program is being charged and the amount. The listing would be signed by the members of the Board of Directors or a designated member of the Board of Directors as evidence of authorization to pay. Not only would this provide a clear audit trail of the expenses incurred, the program and authorization to pay, but it provides an opportunity for questions to be asked and invoices to be examined so that the Board of Directors is better informed of operations. This control is highly recommended, especially if a single individual processes invoices and has signing authority for checks, to make sure that someone else in the organization has oversight of the finances.

Further, all bank statements should be mailed directly to the Board of Directors or a designated member of the Board of Directors (or establish online remote access to the bank account). The bank statements should be opened and transactions and the images of cancelled checks should be reviewed for any unusual transactions. This will provide the Board of Directors with assurance that funds are being spent appropriately.

Support for Cash Receipts

The only support we were able to find for cash receipts was the deposit ticket. As a result there is not any way to substantiate if all cash receipts collected by the Organization was actually deposited. To improve substantiation and internal control so that all cash receipts collected are deposited at the bank, there should be an original source document to substantiate the complete collection of cash receipts, such as a cash register tape. The cash register tape should be retained and filed by date so that it can be independently compared to deposits made. The best practice would be for multiple individuals be involved in this process so that the same individual that is responsible for collecting cash receipts is not also making the deposits or reconciling between the cash register tape and the deposits made.

Timeliness of Financial Reports

The Organization should develop a policy that requires comparative internal financial statements/information to be prepared every month or at least quarterly and provided to the Board of Directors for their review. This will provide more timely communication of the financial health of the Organization to those in charge. This will also assist with the timeliness of the year-end financial statements being completed timely since the information has been compiled on a more regular basis.

IRS Penalties

We noted that that the Organization filed its IRS Form 990 late which resulted in substantial penalties being assessed for late filing. The Organization should have a process in place that makes sure that the Form 990 is filed timely and that the Board is aware of the filing deadline and receive communication of when it is filed as well as a copy of Form 990 for review.

Annual Audit or Agreed Upon Procedures Performed by an External Accountant

To supplement oversight by the Board of Directors it should be considered if an annual audit or agreed upon procedures engagement performed by an external accountant would be beneficial. An annual audit might be too expensive given the small size of the Organization however an agreed upon procedures engagement could be a more cost effective way to ensure that certain internal control practices are being followed. For example, in an agreed upon procedures engagement you could have the accountant examine all deposits over a certain dollar amount to ensure that the appropriate support for cash receipts, such as a cash register tape, has been retained and agrees to the deposit, or to examine all disbursements over a certain dollar amount to ensure that the proper approval has been obtained and the amounts are supported by an invoice. In an agreed upon procedures engagement you can choose the transaction area that is of interest to you and rotate scope of services over several years.

In summary, oversight by those charged with governance is an important aspect of any organization.

We do not express any form of assurance on the effectiveness of internal controls, the financial statements, or any other matter.

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

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