



Woodstock Fire Company Number Three, Inc. Missing Funds and Executive Committee Oversight

Report of Examination

Period Covered:

January 1, 2009 — February 29, 2012

2012M-141



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2012

Dear Fire Company Officials:

The Office of the State Comptroller is authorized to oversee the fiscal affairs of fire companies statewide, as well as their compliance with relevant statutes and observance of good business practices, through the conduct of audits. These audits identify opportunities for improving fire company operations and governance. By doing so, the audits can help Fire Company officials manage company resources efficiently and effectively, and provide accountability for moneys used to support company operations. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard company assets.

Following is a report of our audit of Woodstock Fire Company Number Three, Inc., entitled Missing Funds and Executive Committee Oversight. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for fire company officials to use in effectively managing operations and in meeting the expectations of the public. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Woodstock Fire Company Number Three, Incorporated (Company) is a volunteer fire company with approximately 26 members located in the Town of Woodstock in Ulster County. The Company, which was incorporated in 1957, provides fire protection services primarily in the Woodstock Fire District.

The Company is governed by an Executive Committee (Committee) which comprises five officers and three Directors who are elected annually. The Committee is responsible for the Company's overall control and management of its affairs and finances, including the responsibility for establishing internal controls over financial operations and monitoring the Company's operations to ensure that assets are properly safeguarded.

One person served as the Company's Treasurer from 1997 to 2011. The Company elected a new Treasurer in 2012. The former Treasurer is currently the Vice President, and as such has signatory privileges on all bank accounts according to the Company's by-laws.

Scope and Objectives

The objectives of our audit were to evaluate the internal controls over cash disbursements and receipts and the Committee's oversight of the Company's financial operations for the period January 1, 2009, through February 29, 2012. The audit scope period was extended to January 1, 2006 for our review of money that was not accounted for properly. Our audit addressed the following related questions:

- Did the Committee establish adequate internal controls over cash receipts and disbursements to properly account for and safeguard Company funds?
- Does the Committee adequately oversee the Company's financial operations?

Audit Results

We identified more than \$221,000 of Company funds that were apparently misappropriated from 2006 to 2011, which is more than the \$190,000¹ of total funds deposited in the Company's bank accounts during that time period.² This occurred because the Committee failed to oversee critical financial operations.

¹ This amount includes rents, foreign fire insurance funds, donations, and fundraising.

² The Company began 2006 with a checking account balance of about \$6,000 and three certificates of deposit totaling \$113,428.

The Committee did not provide effective oversight of the Company's financial resources. The former Treasurer did not provide a written report of disbursements, as required by the by-laws, to the Committee each month, and the Committee approved expenses for payment without reviewing the available invoices. The Company's by-laws require that an audit committee review the Treasurer's records at least twice per year. However, the President failed to appoint an audit committee to perform this function. The lack of Committee oversight left the Company vulnerable to fraud, abuse, and misconduct by the former Treasurer.

We have referred this report to law enforcement for investigation.

Comments of Company Officials

The results of our audit and recommendations have been discussed with Company officials and their comments, which appear in Appendix B, have been considered in preparing this report. Company officials generally agreed with the recommendations and indicated they plan to initiate corrective action.

Introduction

Background

The Woodstock Fire Company Number Three, Inc. (Company) is a volunteer fire company with approximately 26 members located in the Town of Woodstock in Ulster County. The Company was incorporated in 1957 and provides service primarily in the Woodstock Fire District.

The Company is governed by an Executive Committee (Committee) which includes the President, Vice President, Treasurer, Secretary, Chief Officers, and three Directors. The Committee is responsible for the Company's fiscal affairs including the responsibility for establishing internal controls over financial operations and monitoring the Company's operations to ensure that assets are properly safeguarded. The Company's by-laws, which were amended in May 2003 and again in October 2011, serve as the policies and procedures that the Committee, officers and members should adhere to when conducting business on behalf of the Company.

The Treasurer's duties include receiving and disbursing funds, maintaining financial records, preparing monthly and annual financial reports for the membership, and providing the Company's records to the audit committee annually. The President's duties include presiding at all Company meetings and Committee meetings, calling special meetings when necessary, enforcing observance of the by-laws, appointing an audit committee annually, and, along with the Treasurer, providing one of the two signatures required on checks at or over the amount of \$2,000.³

The Company's primary sources of revenue are the rental of truck bays to the Woodstock Fire District, foreign fire insurance funds,⁴ donations, and fundraising. In 2011, the Company received approximately \$38,500 in revenues.

One person served as the Company's Treasurer from 1997 to 2011. The Company elected a new Treasurer in 2012. The former Treasurer

³ Prior to October 2011, Company checks at or over \$2,000 required the President's and the Treasurer's signatures. After October 2011, checks in the amount of \$1,000 or more could only be issued with the signature of any two officers consisting of the President, Vice President, Secretary, or a Treasurer.

⁴ Foreign fire insurance moneys represent a tax on the premium paid on insurance policies, as provided for in Sections 9104 and 9105 of the Insurance Law. Each of these sections of law entitles fire companies or fire departments protecting an eligible area to receive an appropriate share of the tax collected on insurance policies written by foreign or alien insurers on policies within their area of protection.

is currently the Vice President, and as such has signatory privileges on all bank accounts according to the by-laws.

Objectives

The objectives of our audit were to evaluate the internal controls over cash receipts and disbursements and the Committee's oversight of the Company's financial operations. Our audit addressed the following related questions:

- Did the Committee establish adequate internal controls over cash receipts and disbursements to properly account for and safeguard Company funds?
- Did the Committee adequately oversee the Company's financial operations?

Scope and Methodology

We interviewed Company officials and reviewed Company bank statements and financial records and reports that were available for the period January 1, 2009, through February 29, 2012. The audit scope period was expanded to January 1, 2006, for our review of moneys that were not accounted for properly.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of Company Officials and Corrective Action

The results of our audit and recommendations have been discussed with Company officials and their comments, which appear in Appendix B, have been considered in preparing this report. Company officials generally agreed with the recommendations and indicated they plan to initiate corrective action.

The Committee has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Committee to make this plan available for public review in the Company Secretary's office.

Missing Funds

The Committee is responsible for protecting Company moneys from loss, misuse or abuse by developing and implementing a system of internal controls that provides reasonable assurance that Company resources are adequately safeguarded, and that all financial activities are accounted for properly. The Committee did not fulfill this responsibility until May 2011 when a payment of \$10,000 for the construction of a new fire truck bay was returned for insufficient funds. Company members then began questioning the Treasurer's activities.

We found that the Company had poor or nonexistent controls over its cash disbursements and receipts; the former Treasurer was able to control all Company funds without any meaningful oversight. As a result, there has been an apparent misappropriation of more than \$221,000 of Company funds for the period 2006 to 2011, which is more than the \$190,000⁵ of total funds deposited in the Company's bank accounts during that time period.⁶ We have referred this report to law enforcement for investigation.

Cash Disbursements

The Company is a not-for-profit corporation. Not-For-Profit Corporation Law (NFPCL) requires that directors and officers perform the duties of their respective positions in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. A good system of internal controls over cash disbursements ensures that payments are for valid Company purposes, supported by an invoice, and properly recorded. It is important that all disbursements are reviewed by the Committee prior to releasing checks. Also, the by-laws state that any check written for \$2,000 or more requires two signatures.

The former Treasurer did not maintain a cash disbursements journal showing the amount, date, purpose, and payee for each disbursement. We requested bank statements, canceled checks, deposit receipts, and invoices for our audit period. The former Treasurer was only able to provide us with bank statements and invoices for 2011. As a result, we subpoenaed bank records from several banks for the period 2006 through 2012 and requested vendor transaction files from select vendors.

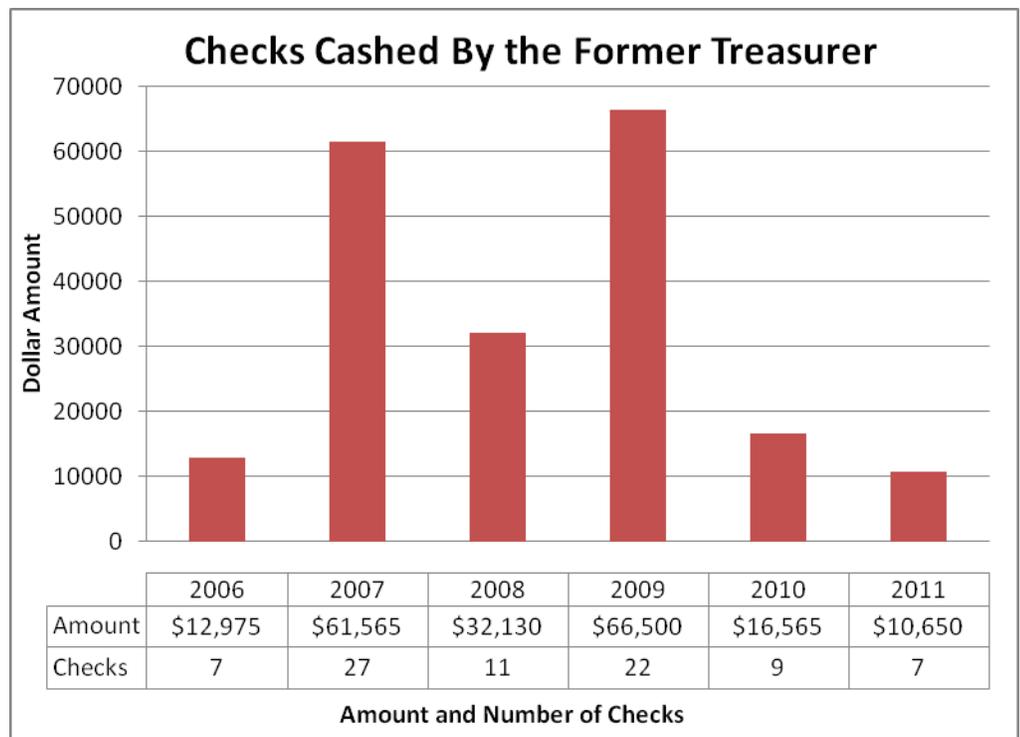
⁵ This amount includes rents, foreign fire insurance funds, donations, and fundraising.

⁶ The Company began 2006 with a checking account balance of about \$6,000 and three certificates of deposit totaling \$113,428.

We reviewed 519 canceled checks from two bank accounts written between January 1, 2006, and February 29, 2012, and compared check payments to vendor invoices when available. During our review of canceled checks, totaling \$360,180, we found the following:

- 83 canceled checks, totaling \$200,385, were made payable to cash and were endorsed by the former Treasurer.
- For the 65 checks for amounts of \$2,000 or more, 12 were vendor checks, and the remaining 53 checks were written to cash. One vendor check had the required two signatures; the other 64 checks had only the former Treasurer's signature.
- One vendor invoice for \$909.37 was not valid because it did not appear on the transaction report provided directly by the vendor.
- Three checks were written to cash totaling \$5,500 that the former Treasurer reported as payments totaling \$1,775.06 to a utility vendor.

The following graph shows checks payable in cash endorsed by the former Treasurer:



In addition, we compared the 83 checks written to cash to deposits the former Treasurer made into his personal and business accounts. We identified 71 deposits made into the former Treasurer's accounts soon after the checks were cashed. (See Appendix A for a list of the checks cashed and deposited.)

The former Treasurer told us that all vendors accepted Company checks and none requested cash payments. The former Treasurer told us that he did not remember what was going on at the Company at the time the older checks were issued. He also offered no explanation as to what he did with the money from the checks issued in 2011. The former Treasurer said that he might have deposited the money into other Company accounts. However, our review of all 147 deposits into Company accounts did not find any deposits of the checks in question.

We also interviewed the former President who was in office in 2010 and 2011 and the former Vice President in office 2006 through 2008 to determine if they knew the purpose of these checks. The two former officers had no explanation for the checks and told us that neither the Committee nor the membership granted permission for checks to be written to cash. We also inquired if loans were given to the former Treasurer. Both officers stated that loans were not permitted by the Company.

The former Treasurer inappropriately cashed checks and could not explain what the funds were used for. The lack of a formal Company cash disbursements system, the lack of detailed invoices, the issuing of checks made payable to cash, and the lack of Committee oversight resulted in Company officials being unable to account for all Company funds.

Cash Receipts

The by-laws require the Treasurer to receive all moneys collected by members or otherwise due to the organization and to issue a written receipt for all collections. The Treasurer is further charged with keeping records of receipts and depositing all funds in bank accounts designated by the Committee. Good management practices require that these receipts be recorded in a duplicate receipt book and cash receipts journal to provide a detailed record of the amounts and dates received, who received the receipts, and the sources. This information becomes a summary of the amounts deposited at the bank. In addition, it is important to use duplicate deposit slips showing each deposit so that receipts can be traced to deposits.

Unusual Deposits – The former Treasurer did not maintain records of cash receipts as required by the by-laws. We reviewed 147 deposit compositions obtained through subpoenas and found \$169,759 of questionable deposits, as follows:

- Three deposits were made into the Company’s checking account from the former Treasurer’s personal checking account totaling \$68,600 on the following dates: June 3, 2011 (\$60,000), June 20, 2011 (\$5,000), and August 31, 2011 (\$3,600).
- One check for \$51,159, dated August 1, 2011, from the former Treasurer’s checking account was used to open a certificate of deposit in the Company’s name.
- One wire transfer was made on May 24, 2011, into the Company’s checking account in the amount of \$50,000 from the account of the former Treasurer’s sister.

We discussed these deposits with several current and past officers, but they had no explanation as to why these deposits were made. The officers stated that deposits that were donations would have been recognized in the Committee’s minutes. However, there was no mention of these deposits as donations in the minutes. It appears that the former Treasurer replaced funds that were misappropriated. We calculated that \$200,385 was taken and \$169,759 was replaced leaving \$30,626 of funds still missing as of the end of our fieldwork, July 3, 2012.

Fundraising Moneys – The Company holds pancake breakfasts as fundraisers six times per year, from January to March and September to November. Almost all of the payments for the breakfasts are received in cash. The cash was collected at the door by the former Treasurer, and no record of the amount received was available for our review. Therefore, we reviewed the compositions of deposits provided by the bank to determine if cash had been deposited to correspond to the dates the pancake breakfast fundraisers were held. Our results are found in Table 1:

Table 1: Receipts From Fundraising Events							
	Year						
Period	2006	2007	2008	2009	2010	2011	2012
January - March	\$1,283	\$43	\$20	\$154	\$69	\$103	\$2,961
September - November	\$37	\$173	\$115	\$154	\$29	\$4,410	n/a ^(a)
Total	\$1,320	\$216	\$135	\$308	\$98	\$4,513	\$2,961
^(a) Information not yet available							

As the table shows, from September 2006 until March 2011 there was a significant drop in cash deposited. This time period coincides with the start of checks being written to cash and endorsed by the former Treasurer. It also coincides with the end of checks being written to cash which stopped after March 2011 when construction on the new fire truck bay began. The cash deposits for the period September to November 2011 show an increase of more than \$4,300 compared to the cash deposits for the period September to November 2006. Because there is no record of attendees at the breakfast fundraisers, the exact amount of funds that were not deposited in Company accounts cannot be determined. Between September 2006 and March 2011, the Company held 30 breakfast fundraisers. Conservatively, if each breakfast grossed \$700,⁷ then the Company should have received \$21,000 in revenue. While Company members volunteered their time to provide a community event and raise funds, it appears that the Company never financially benefitted from their efforts.

The former Treasurer offered no explanation as to why cash was not deposited for the breakfast fundraisers. Without receipts and deposit slips to coincide with the fundraising, there is no assurance to the members that the breakfast fundraiser moneys were deposited into Company accounts.

Altered Documentation

The Committee needs accurate records to monitor the Company's fiscal affairs. NFPCL requires that accurate account records be maintained so that they may be provided when requested. Records need to be available for an audit committee review or independent audits.

The Company did not have complete and accurate financial records prior to 2012. We requested bank statements, canceled checks, invoices, and cash disbursement and receipt journals for our audit period from the current Treasurer. We were provided with the 2012 documents. The current Treasurer contacted the former Treasurer for the previous years' information which he had possession of from his tenure as Treasurer. The former Treasurer provided us with invoices and bank statements for 2011, but no documentation was provided for prior to 2011. We compared the 2011 bank statements to those that we received directly from the bank and found the following:

- 10 of 12 bank statements' beginning balances did not match the beginning balances on the subpoenaed bank statements.

⁷ Due to the lack of itemized receipts for the breakfast expenses between September 2006 and March 2011, Company officials also could not estimate revenue based on the expenses. We reviewed the fundraising collections for September through November 2011 and January through March 2012 and used the lowest collection amount of \$700 per breakfast to calculate any estimate of potential revenue.

- Seven check amounts on the statements provided by the former Treasurer did not match the actual canceled checks from the bank.
- Five of the seven canceled checks, totaling \$10,500, were made payable to cash. However, the bank statements provided by the former Treasurer showed these checks totaling \$1,903.86, a difference of almost \$8,600.

The former Treasurer stated that the bank statements he provided to us were originals from the bank even though they were not the same as those we received directly from the bank. The former Treasurer could offer no explanation for the discrepancies. When we asked why other records or documents we requested were not provided to us, the former Treasurer stated that he could not find them.

The ability of the former Treasurer to control all cash disbursements, cash receipts, and financial documents without any oversight by the Committee has resulted in a significant number of questionable transactions going undetected for several years and resulted in Company officials being unable to account for more than \$221,000 of Company funds.

Recommendations

1. The Committee should review all invoices and receipts for reimbursement prior to disbursement and retain them on file for audit purposes.
2. The Committee should review bank records to ensure that transactions listed agree with disbursements approved.
3. The Committee should prohibit checks being made payable to cash.
4. The Committee should review all checks that were made payable to cash and take steps to recover any funds not used for legitimate Company purposes.
5. The Committee should establish procedures to ensure that all funds received from fundraisers are properly accounted for and recorded.
6. The Committee should ensure the Treasurer uses duplicate press-numbered receipts for deposits, so that information can be properly maintained.

7. The Committee should determine whether the former Treasurer accounted for all cash receipts and take steps to recover any funds not deposited in Company accounts.
8. The Committee should require that all bank statements be sent directly to someone other than the Treasurer.

Executive Committee Oversight

The Committee is responsible for taking an active role in safeguarding the Company's resources by monitoring operations. NFPCL defines by-laws as the code or codes of rules adopted for the regulation or management of the affairs of the corporation. For by-laws to be effective, they must be followed and enforced. Among other things, by-laws are designed to prevent or detect errors or fraudulent activities in a timely manner.

The Committee did not provide effective oversight of the Company's financial resources. The Treasurer did not provide a written report of disbursements, as required by the by-laws, to the Committee each month. The Treasurer also did not maintain invoices for 17 of the 82 payments made in 2011, and the Committee approved expenses for payment without reviewing the available invoices. The Company's by-laws require that an audit committee review the Treasurer's records at least twice per year. However, the President failed to appoint an audit committee to perform this function. The lack of Committee oversight left the Company vulnerable to fraud, abuse and misconduct by the former Treasurer.

Disbursements – The by-laws require the Treasurer to make a report each month showing all amounts disbursed, and the date, purpose, and payee of the expense, to the Committee and members. Although the by-laws do not specifically state that the Treasurer must maintain detailed invoices for Company expenses and the Committee must review all invoices before they are paid, good business practices would require the Treasurer to maintain sufficiently detailed invoices and the Committee to review all invoices prior to payment to ensure that the Company is only paying for goods and services that benefit the Company.

The former Treasurer provided a monthly verbal, not written, report to the Committee of bills to be paid. The Committee approved payment of the bills⁸ based on the verbal report, without reviewing the invoices or having the opportunity to, at a minimum, review a detailed list of the bills to be paid. The Treasurer also did not maintain invoices for all Company expenses. We reviewed all 82 checks, totaling approximately \$67,500, that cleared Company bank accounts in 2011, and found that only 65, totaling approximately \$52,200, had valid invoices or receipts to indicate they were for proper Company expenses. Therefore, 17 checks were issued in 2011, (21 percent of all

⁸ The Committee's approval was documented in the monthly meeting minutes.

disbursements) without invoices to provide assurance that payments were for Company expenses. The absence of a written report of disbursements, and proper supporting documentation for and review of all invoices, may allow payments to occur that are not for valid Company expenses.

Annual Audit – The by-laws give the Committee the power to examine the books and accounts of any officer and state that the President should appoint an audit committee at the annual meeting. Prior to the annual meeting and at least one other time during the year, the audit committee is to examine the Treasurer’s accounts, including a verification of bank balances. Then, a report should be made at the annual meeting and at the next regular meeting following the interim examination.

The Committee never requested an examination of the Treasurer’s records from 2009 to mid-2011. An audit committee was not appointed until July 2011, when the Company suspected problems with the Treasurer’s records. When the audit committee requested the former Treasurer to supply information, he did not supply canceled checks and provided incomplete invoices for disbursements and altered bank statements. Of the 82 checks that cleared the bank in 2011, seven had discrepancies in check amounts between the bank statements obtained directly from the bank and the bank statements supplied by the former Treasurer. Also 17 checks, did not have invoices or receipts to provide assurance that payments were for Company expenses.

The past President (served 2010-11) stated that she was under the impression that the audit committee was made up of the Directors. We were unable to interview the past President from 2009 due to an illness. However, the past Vice President (served 2006-08) stated there was no audit committee because the former Treasurer was an attorney and a trusted community member. Because the former Presidents failed to appoint an audit committee, Company members do not have assurance that moneys were being spent appropriately, and Company funds were vulnerable to theft and abuse.

The Committee’s failure to approve individual invoices and require financial reporting by the former Treasurer, and the past President’s failure to appoint an audit committee, created an environment where fraud and misuse of Company funds may have occurred and gone undetected by Company members.

Recommendations

9. The Committee should provide oversight of financial transactions, approve individual invoices, and properly monitor the Treasurer’s activities.

10. The President should appoint an audit committee annually that audits the Treasurer's records, verifies bank balances, and reports its findings to the membership as required.

APPENDIX A

FORMER TREASURER'S MISUSE OF COMPANY FUNDS

Date	Check Written for Cash and Cashed by Former Treasurer	Date	Amount Deposited in Former Treasurer's Account	Days From Check Cashed to Deposit
9/11/2006	\$1,900	9/14/2006	\$1,700	3
9/19/2006	\$1,800	9/20/2006	\$1,800	1
9/27/2006	\$1,800	10/3/2006	\$1,800	6
10/6/2006	\$1,900	10/12/2006	\$1,900	6
11/2/2006	\$1,800	11/6/2006	\$1,800	4
11/27/2006	\$1,875	11/29/2006	\$2,000	2
12/16/2006	\$1,900	12/22/2006	\$1,800	6
1/25/2007	\$1,800	1/25/2007	\$1,800	0
2/6/2007	\$1,900	2/12/2007	\$1,800	6
2/27/2007	\$1,900	3/1/2007	\$1,900	2
3/14/2007	\$1,900	3/15/2007	\$1,900	1
3/21/2007	\$1,900	3/22/2007	\$1,900	1
3/30/2007	\$1,900	3/30/2007	\$1,800	0
4/3/2007	\$1,900	4/5/2007	\$1,900	2
4/16/2007	\$1,900	4/17/2007	\$1,900	1
4/25/2007	\$2,000	4/25/2007	\$1,700	0
5/2/2007	\$1,900	5/2/2007	\$1,900	0
5/15/2007	\$3,900	5/16/2007	\$3,500	1
5/24/2007	\$4,000	5/25/2007	\$3,800	1
6/1/2007	\$3,000	6/5/2007	\$3,000	4
6/6/2007	\$3,000	6/6/2007	\$2,700	0
6/21/2007	\$3,500	6/22/2007	\$3,500	1
6/29/2007	\$3,000	7/2/2007	\$2,800	3
7/21/2007	\$4,000	7/24/2007	\$3,600	3
10/22/2007	\$3,000	10/25/2007	\$3,000	3
11/21/2007	\$3,000	11/23/2007	\$3,000	2
11/30/2007	\$3,000	12/3/2007	\$3,000	3
12/21/2007	\$3,000	12/24/2007	\$2,600	3
12/27/2007	\$4,000	12/27/2007	\$3,600	0
1/8/2008	\$3,000	1/9/2008	\$3,000	1
1/25/2008	\$2,000	1/28/2008	\$1,900	3
1/29/2008	\$2,000	1/30/2008	\$2,000	1
3/7/2008	\$3,000	3/12/2008	\$1,500	5
3/18/2008	\$4,000	3/20/2008	\$3,700	2

Date	Check Written for Cash and Cashed by Former Treasurer	Date	Amount Deposited in Former Treasurer's Account	Days From Check Cashed to Deposit
3/24/2008	\$4,000	3/25/2008	\$4,000	1
3/27/2008	\$4,000	3/27/2008	\$3,100	0
4/17/2008	\$4,000	4/17/2008	\$3,500	0
4/25/2008	\$4,000	4/25/2008	\$3,500	0
5/12/2008	\$2,000	5/13/2008	\$1,700	1
3/4/2009	\$2,000	3/9/2009	\$1,500	5
3/27/2009	\$3,000	3/30/2009	\$3,000	3
4/5/2009	\$3,000	4/13/2009	\$3,000	8
5/4/2009	\$3,000	5/7/2009	\$2,900	3
5/19/2009	\$4,000*	5/19/2009	\$3,700	0
5/28/2009	\$4,000	5/28/2009	\$4,000	0
6/4/2009	\$3,000	6/4/2009	\$2,700	0
6/19/2009	\$3,500	6/19/2009	\$3,500	0
7/2/2009	\$4,000	7/2/2009	\$3,700	0
7/7/2009	\$4,000	7/7/2009	\$3,600	0
7/10/2009	\$4,000	7/14/2009	\$4,000	4
7/28/2009	\$4,000	7/28/2009	\$4,000	0
8/4/2009	\$4,000	8/4/2009	\$3,800	0
8/18/2009	\$3,000	8/18/2009	\$2,700	0
9/3/2009	\$3,000	9/3/2009	\$2,700	0
9/14/2009	\$3,000	9/14/2009	\$2,800	0
10/2/2009	\$3,000	10/2/2009	\$3,000	0
10/7/2009	\$3,000	10/9/2009	\$2,800	2
10/22/2009	\$3,000	10/22/2009	\$3,000	0
11/25/2009	\$1,500	11/25/2009	\$2,300	0
12/24/2009	\$1,500	1/2/2010	\$1,300	9
1/12/2010	\$3,000	1/15/2010	\$2,600	3
1/27/2010	\$2,000	1/28/2010	\$2,400	1
2/10/2010	\$2,000	2/12/2010	\$2,000	2
2/24/2010	\$2,000	2/24/2010	\$2,000	0
6/25/2010	\$3,000	6/25/2010	\$2,800	0
10/21/2010	\$3,000	10/21/2010	\$3,000	0
1/7/2011	\$2,000	1/10/2011	\$1,950	3
1/26/2011	\$3,000	1/26/2011	\$3,000	0
2/17/2011	\$1,500	2/17/2011	\$1,450	0
3/16/2011	\$1,000	3/16/2011	\$1,500	0
3/18/2011	\$3,000	3/18/2011	\$3,000	0
Total	\$196,375		\$187,000	

*Two checks written for \$2,000 each from different accounts held by the Woodstock Fire Company #3.

APPENDIX B

RESPONSE FROM COMPANY OFFICIALS

The Company officials' response to this audit can be found on the following page.

Woodstock Fire Company No. 3
4123 Route 212, Lake Hill, NY 12448



Serving Woodstock, Bearsville, Lake Hill, Shady & Willow since 1936

Mr. Christopher J. Ellis, Chief Examiner
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725

Please accept this correspondence as Woodstock Fire Company No. 3's response to draft audit report 2012M-141. Initially, we wish to thank your office for the prompt response to our request for a review of the financial records of the Fire Company. We were genuinely impressed by the professionalism and competence of the Senior Examiner assigned to the audit and we are grateful for the diligence of the OSC staff of the Newburgh Regional Office in investigating this matter.

We agree with the findings contained within the draft report. Many of the recommendations propose changes in financial management procedures that the Fire Company began implementing well before the completion of the audit. The Fire Company is currently revising by-laws and organizational policies consistent with recommendations in the draft report. We will expound upon these changes in more detail in our forthcoming Corrective Action Plan.

Please be assured that your office will have our continued cooperation and that we stand ready to assist the authorities in the recovery of any missing funds. Once again, please convey our gratitude to your staff for their fine efforts.

Very truly yours,

ROBERT MECI, President
Woodstock Fire Company No. 3

845-679-6019 Office

PO Box 84, Lake Hill, NY 12448

WoodstockFireDepartment@live.com E-mail

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Company assets and monitor financial activities. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed Company officials, performed limited tests of transactions, and reviewed pertinent documents such as the Company's by-laws, meeting minutes, and financial records and reports for the period January 1, 2009, through February 29, 2012. The scope period was extended to January 1, 2006, for our review of the extent to which moneys were not accounted for properly.

OSC was contacted by the Company's new officers due to information they uncovered after reviewing bank records. After reviewing the information they provided, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected cash receipts and disbursements and Executive Committee oversight for further review.

To accomplish our audit objectives and obtain relevant audit evidence, our procedures included the following:

- We reviewed all transactions from the bank statements for the checking account and the money market account.
- We also reviewed the activity in four Certificates of Deposit.
- We reviewed 519 checks written out by the former and current Treasurers during the period January 1, 2006, to February 29, 2012.
- We interviewed the past President, past Vice President, and current Company officials.
- We subpoenaed bank and selected vendor records for the period January 1, 2006, to February 29, 2012.
- We reviewed all bank transfers to determine if the transfers could be traced from one Company account to another.
- We reviewed the Company's by-laws as amended in May 2003 and again amended in October 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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