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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Members  
Port of Oswego Authority  
Oswego, New York

We have audited the basic financial statements of Port of Oswego Authority, a component unit of the State of New York, as of and for the year ended March 31, 2011, and have issued our report thereon dated June 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Port of Oswego Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Port of Oswego Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port of Oswego Authority's internal control over financial reporting.

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 material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the following paragraph that we consider to be significant deficiencies in internal control over financial reporting. Finding 2011-1 is considered a significant deficiency. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Finding 2011 – 1 Preparation of Financial Statements**

In accordance with accounting standard SAS112, should management choose to allow the auditors to prepare the Organization's financial statements, including full footnote disclosure, instead of preparing the statements themselves, this is considered an internal control deficiency. While it is common practice for the auditors to prepare the financial statements for many organizations, the new standard requires us to communicate to those charged with governance this choice to have the auditors prepare the financial statements as a significant deficiency or material weakness. This is to ensure that you understand that the auditors, not management, have prepared the financial statements and allow those charged with governance the ability to determine whether the cost of implementing an appropriate control to prepare the financial statements outweighs the benefit that could be gained. An appropriate control could be hiring additional staff with the knowledge and ability to prepare the financial statements or hiring another accountant to prepare the financial statements before the audit commences.

#### **Management Response**

In accordance with the Statement of Auditing Standards (SAS) No. 112, it is the responsibility of the Port of Oswego Authority to prepare the organization's financial statements. The Port Authority chose to allow the independent auditor to prepare the financial statements for the reporting period, as has been standard practice for previous audits. It is important to note that this practice is not precluded under the new guideline, but rather is now listed as a significant deficiency under the published standards.

The Port of Oswego Authority will be working through a process by which expertise shall be developed within the staff, or a third party will be selected to prepare financial statements in accordance with SAS No. 112.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Port of Oswego Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that are required to be reported under *Government Auditing Standards*.

Port of Oswego Authority's response to the finding identified in our audit is described above. We did not audit Port of Oswego Authority's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the Port of Oswego Authority, in a separate letter dated June 16, 2011.

This report is intended solely for the information and use of the Board of Members, management, and the State of New York and is not intended to be, and should not be used by anyone other than these specified parties.

*Sovie & Bowie C.P.A., P.C.*

June 16, 2011