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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

March 2, 2005

Mr. Thomas McAuslan  
Executive Director  
Port of Oswego Authority  
P.O. Box 387  
Oswego, New York 13126

Re: Internal Controls Over Financial  
Operations  
Report 2004-Q-16

Dear Mr. McAuslan:

Pursuant to the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act), as revised in 1999, the Port of Oswego Authority's management is responsible for establishing and maintaining an effective system of internal controls and a program of internal control review. State agencies and authorities must annually certify their compliance with important provisions of internal control to the Division of the Budget in accordance with Budget Policy and Reporting Manual Item B-350. The Port of Oswego Authority's management is responsible for the certification. Our responsibility is to express an opinion on the certification based on our examination.

**Background**

The Port of Oswego Authority (Authority), whose primary mission is to promote, develop and efficiently operate port facilities with a view towards the furtherance of commerce and industries, is responsible for the port facilities in the Oswego Port District. The district is made up of the waters of the Oswego River and those within the boundaries of Lake Ontario. The Authority is also responsible for rental property in the Town of Scriba. The Authority employs a staff of seven full time and three part time employees, including the Executive Director. For the fiscal year ended March 31, 2004, the Authority had revenues totaling \$1,067,714 and expenditures of \$1,442,690, resulting in a net operating loss of \$374,976. The Authority's Board of Directors (Board) is made up of nine members appointed by the Governor with the advice and consent of the Senate, who serve three-year terms.

## **Examination Objective and Methodology**

The objective of our examination was to determine whether the Authority's certification was fairly stated in all material respects. Our examination was conducted in accordance with Generally Accepted Government Auditing Standards, which include the attestation standards established by the American Institute of Certified Public Accountants. Accordingly, we examined, on a test basis, evidence supporting the existence of a system of internal controls over basic financial functions and performed such other procedures as we considered necessary in the circumstances. In particular, we performed tests to determine whether management has established policies and procedures that provide an appropriate level of internal control over basic financial operations, and to determine whether the Authority's employees follow those policies and procedures.

To accomplish our objective, we interviewed appropriate Authority officials and reviewed applicable policies and procedures governing the following significant operations: board oversight and governance, revenue and collections, cash and investments, payroll, procurement and contracting, equipment and asset management, budgeting and expenditure control and accounting and information systems functions. We performed limited compliance testing to provide assurance that Authority employees are following the established policies and procedures. The Authority had implemented a new accounting system in March 2004, so we limited our audit to the period March 1, 2004 through October 28, 2004. The Authority installed this new system to correct the conditions we identified in the prior Report 2002-Q-11, which was issued on December 13, 2002.

## **Results of Examination**

Authority management did not file the required certification with the Division of the Budget for the fiscal year ended March 31, 2004. Accordingly, we cannot express an opinion thereon. However, for the most part, Authority management has established policies and procedures that provide an adequate level of internal control over its basic financial operations. We commend the Authority for the improvements it has made to its accounting system. However, we found some areas in need of improvement. The following are the areas in which the Authority could strengthen its policies and procedures. (A summary table addressing specific questions related to each of the entity's basic financial operations is attached as Table 1.)

1. Due to key staffing changes, it appears Authority management overlooked filing the Annual Internal Control Certification with the Division of the Budget for the fiscal year ended March 31, 2004. Authority management indicated it intends to update its internal controls and assess risks to reflect current operations, and file the required certification as soon as possible. We recommend the Authority file the Internal Control Certification no later than March 31, 2005.
2. We found the Authority can improve internal controls over its procurement process. Efforts to seek competitive prices needs improvement. In addition, statewide procurement contracts have not been used for the last one and one-half years. As a result, the Authority may be paying more for purchases than is necessary. There were about \$83,400 in discretionary purchases during the fiscal year ended March 31, 2004 that would be subject to statewide procurement contracts. We recommend that the

Authority seek competitive prices when appropriate.

3. Our prior internal control review (Report 2002-Q-11, issued December 13, 2002) found that equipment controls were inadequate. During our current examination, we found the inventory records have not been updated for approximately one and one-half years. We found the inventory records contained items which had previously been disposed of. Three of those items (a boat, sport utility vehicle and computer equipment) had been sold. Furthermore, a physical inventory has not been conducted in three years. As such, the inventory records cannot be relied on to control Authority property. In addition, maintenance logs reflecting service such as oil changes and minor repairs for equipment are incomplete. For example, we saw large gaps of time in service repair records, which indicate maintenance may not have been performed. We recommend the Authority maintain complete and accurate inventory records and maintenance logs, and perform periodic physical inventories on an annual basis.

Major contributors to this examination were Brian Lotz, Kathleen Garceau, and Jacqueline Keeys-Holston.

We welcome your comments in response to this examination. We wish to express our appreciation to the management and staff of The Port of Oswego Authority for the courtesies and cooperation extended to our auditors during this examination.

Very truly yours,

William P. Challice  
Audit Director

cc: Robert Barnes, Division of the Budget

**PORT OF OSWEGO AUTHORITY  
INTERNAL CONTROLS OVER BASIC FINANCIAL OPERATIONS**

A colored “traffic light” legend is included in the table below to assist management in focusing an appropriate level of attention on the issues identified in the Authority Activities and Comptroller’s Comment sections of the Examination Findings.

**Legend:**

	Activities/Comments contain matters that should be of immediate concern to management.		Activities/Comments contain matters which management should consider correcting.		Activities/Comments do not contain issues that require management’s immediate consideration.
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**Examination Findings:** As part of our examination, we sought answers to a series of questions and reviewed selected Authority records related to certain basic financial operations. Our questions in each area, along with a summary of the Authority’s activities and our comments, are presented below.

	<b>QUESTION</b>	<b>AUTHORITY ACTIVITIES</b>	<b>COMPTROLLER’S COMMENT</b>
	<b>Board Oversight &amp; Governance:</b>		
	Does the Authority’s Board of Directors function in a manner that promotes an ethical business climate within the organization and encourages and supports full compliance with all applicable laws, rules and regulations?	Currently, there is no written ethics policy authorized by the Board. However, there was nothing in our review that leads us to believe that there was any unethical behavior occurring at the Authority.	The Board has hired a consultant to prepare a written Code of Ethics. It is expected that the Code of Ethics will be completed by December 31, 2004.
	Has the Board of Directors established appropriate internal controls that promote the economic, efficient and effective operation of the Authority consistent with its statutory public benefit mission and that provide for transparency and accountability in pursuing its strategic business objectives?	The Board receives revenue and expense data each month. Board minutes reflect that revenue and expense data is used to formulate strategic business objectives.	While the Authority has operated at a loss each of the past three years, the Board and the Executive Director are actively taking steps to reverse that trend. The Board and the Executive Director are exploring the possibility of a cross-lake ferry for truck traffic. Other revenue generating plans include the sale of the Authority-owned water line.

	QUESTION	AUTHORITY ACTIVITIES	COMPTROLLER'S COMMENT
<b>Revenue &amp; Collections:</b>			
	Do the Authority's internal controls provide assurance that revenues are billed timely and accurately, and are recorded properly in the accounting records?	The Authority bills for several different types of revenue, including dockage and wharfage of ships, loading and unloading of trucks and rail cars, rental of storage space, and rental of various facilities. The policies and procedures for each of these types of revenue provide assurance that revenues are billed timely and are recorded properly in the accounting records.	Our testing confirmed that the billing procedures are adequate.
	Do the Authority's internal controls provide assurance that revenues are being collected timely?	The Authority's accounting system routinely provides an aging of accounts receivable. The report is reviewed by the Board, as well as by Authority employees.	At the time of our review, the Authority's accounts receivable totaled just over \$84,700 about 95 percent of which was outstanding less than 60 days. Authority staff are aware of the overdue accounts and are working to obtain payments. The procedures in place ensure that revenues are collected and recorded timely.
<b>Cash &amp; Investments:</b>			
	Do the Authority's internal controls provide assurance that cash and investments are properly safeguarded, accounted for, and deposited into the appropriate accounts?	Payments received are processed and recorded timely. The majority of cash receipts are checks. Actual cash receipts and petty cash maintained at the Authority are minimal. The Authority's investments are accounted for accurately and consist of several Certificates of Deposits in local banks.	The Board is kept apprised of the certificates of deposit each month in the board minutes. The Board approves all investments. Rates were found to be competitive.

	QUESTION	AUTHORITY ACTIVITIES	COMPTROLLER'S COMMENT
	<p>Do the Authority's internal controls provide assurance that petty cash disbursements are properly authorized and recorded?</p>	<p>The Authority has a petty cash fund of \$200. As expenses are paid from the petty cash fund, receipts are accumulated and reviewed by the Executive Director. Upon approval, these receipts are submitted to the Office of the State Comptroller for reimbursement.</p>	<p>We tested a sample of five transactions and found them to be adequately supported, properly authorized and recorded.</p>
<b>Payroll:</b>			
	<p>Do the Authority's internal controls provide assurance that employee time and attendance records are accurate and that leave time is accounted for and recorded properly?</p>	<p>The Authority uses a payroll service to assist in formulating the bi-weekly payroll. Time and attendance procedures involve the use of a time clock for warehouse workers and written time sheets for administrative staff. Requests for absences are reviewed and approved by the Executive Director.</p>	<p>We verified two employees' time and attendance records for one randomly selected payroll period in June 2004. We found the entries to be accurate and complete.</p>
	<p>Do the Authority's internal controls provide assurance that payroll changes (e.g., additions, deletions, and overtime) are processed accurately and timely?</p>	<p>The Authority's payroll service provides the Executive Director with hard copy reports of changes to the payroll system. All overtime requests are approved by the Executive Director in advance of the hours worked.</p>	<p>Changes to payroll, made by the account clerk, were observed and verified to the payroll service reports for accuracy and timeliness. All changes and overtime activity were accurate and timely.</p>
<b>Procurement &amp; Contracting:</b>			
	<p>Do the Authority's internal controls provide assurance that purchases are authorized, received, and recorded properly?</p>	<p>Key personnel are responsible for initiating a purchase requisition, which is reviewed and approved by the Executive Director prior to contacting a vendor. Upon approval, the account clerk is responsible for contacting a vendor, maintaining the accounting records and processing disbursements. Receipt of all goods is managed by administrative staff.</p>	<p>We found that the account clerk maintains the accounting records and writes checks for all disbursements. Maintaining the accounting records and writing checks is an inadequate separation of duties. Furthermore, pre-signed checks left in an unlocked space add to this weakness. However, the Executive Director reviews the bank statement, including all canceled checks, each month and is in a position to recognize unauthorized purchases.</p>

	<b>QUESTION</b>	<b>AUTHORITY ACTIVITIES</b>	<b>COMPTROLLER'S COMMENT</b>
	<p>Do the Authority's internal controls provide assurance that purchases are reasonable and necessary and made in an economical and efficient manner?</p>	<p>Discretionary purchases of items under \$5,000 are made without seeking competitive prices. The Executive Director stated that staffing limitations make it difficult to compare prices.</p>	<p>We found that, in addition to not seeking competitive prices for discretionary purchases, the Authority does not utilize Statewide contracts when possible. The Authority may not be obtaining the best price for discretionary purchases.</p>
<p><b>Equipment and Asset Management:</b></p>			
	<p>Do the Authority's internal controls provide assurance that equipment acquisitions and dispositions are authorized and recorded properly, and that a comprehensive inventory of equipment is maintained?</p>	<p>Although a detailed inventory list is maintained reflecting appropriate details such as asset description, cost and model number, the Authority's equipment dispositions are not recorded properly. Authority officials state that a physical inventory is conducted once every three years.</p>	<p>We found that the inventory records had not been updated for approximately one and one-half years. For example, the inventory listing contains a boat, a sport utility vehicle and computer equipment that had been sold. We believe that the inventory records should be updated more timely and that annual physical inventories should be taken to ensure the accuracy of the inventory records.</p>
	<p>Do the Authority's internal controls provide assurance that equipment is secured properly, used as intended, and properly maintained?</p>	<p>The Authority is located in a gated and secured area. Employees are instructed on the proper use of all Authority equipment. The Authority keeps maintenance logs for equipment items reflecting periodic maintenance.</p>	<p>Authority equipment items are not prominently marked with a "Port of Oswego Authority" decal. We believe the lack of the decal poses a limited risk, as there are relatively few equipment items, and they are housed within a gated facility. We found the equipment maintenance logs contained large gaps in service for a variety of equipment items, creating doubt as to whether equipment items are being maintained properly. We also observed that the Authority's equipment was being used as intended.</p>
<p><b>Budgeting &amp; Expenditure Control:</b></p>			

	<b>QUESTION</b>	<b>AUTHORITY ACTIVITIES</b>	<b>COMPTROLLER'S COMMENT</b>
	Do the Authority's internal controls provide assurance that the Agency's annual budget is prepared accurately and timely?	The Executive Director prepares an annual budget accurately and reports to the Board in a timely manner.	We found that operating revenue and expenses were relatively close to the budgeted amounts for the fiscal year ended March 31, 2004.
	Do the Authority's internal controls provide assurance that actual operating results are monitored against budgeted estimates and that appropriate revisions to current and future budgets are made as warranted by these operating results?	The annual budget is incorporated into the accounting system and accumulated monthly in a report to the Board.	The Executive Director is cognizant of the need for revisions to the budget. For example, the wharfage revenue budget increased from fiscal 2003 to 2004, reflecting anticipated increases in shipping traffic. Also, budgeted payroll expenses increased to cover the anticipated hiring of additional staff.
<b><u>Accounting and Information Systems:</u></b>			
	Do the Authority's accounting and information systems provide assurance that management has access to timely, accurate and relevant information?	In an effort to correct deficiencies in their accounting system, the Authority installed a new comprehensive accounting system in March of 2004.	Based on testing, we found the new information system at the Authority contained information that was timely, accurate and relevant.
	Do the Authority's internal controls provide assurance that the accounting and information systems are secure and that the information is recoverable in case of system failure?	A copy of the Authority's accounting system software is maintained in a fireproof safe at the Port. In the event of a disaster, accounting data is recoverable within one week.	In addition to maintaining back up copies of program software in an office safe, input data is backed up twice per week and maintained at an off-site location.