

**CITY OF PORTSMOUTH, NEW HAMPSHIRE**

**MANAGEMENT LETTER**

**JUNE 30, 2023**



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Management  
City of Portsmouth, New Hampshire

In planning and performing our audit of the financial statements of the City of Portsmouth, New Hampshire (City) as of and for the year ended June 30, 2023, 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of opportunities to strengthen your internal control and improve the efficiency of your operations. We also want to make you aware of an accounting standard that may impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report on the City's financial statements dated December 18, 2023.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The City's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Boston, Massachusetts  
December 18, 2023

CITY OF PORTSMOUTH, NEW HAMPSHIRE

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## **Information Technology**

### Comment

The fiscal year 2023 audit included an Information Technology (IT) financial audit support review. The scope of the review was not a full-scale IT audit. It was specifically focused on limited areas relating to integrity of transactions and data, with potential direct impact to financial reporting.

The following summarizes some of the areas for improvement we identified. Certain details have been excluded from this report for security purposes. All information related to our observations has been shared with the City's IT and Finance Departments.

1. The City's key IT policies and procedures are currently in draft form and have not been formally approved and implemented.
2. The City does not have a formal, routine schedule for performing periodic access reviews of users' rights over the City's networks and applications. However, it was noted that during the audit period, a review of network users was performed as a part of the Office 365 migration.
3. We performed sample testing of terminated employees to determine if they were still listed as active users within the City's networks and applications. The results of this testing identified fourteen (14) terminated individuals listed as active users in the listing provided by the City.
4. The City has a ticketing system in place to track its services. However, it is not being fully utilized for change management purposes to ensure that IT changes are appropriately authorized, tested, documented, and monitored.
5. The process for formally granting and approving new user access is not consistent. New user access should be formally approved and documented prior to access being granted.

### Recommendation

We recommend the City implement the improvements identified from the IT financial audit support review.

### Management's Response

1. Key IT policies and procedures are in process and are a significant focus for the CIO in 2024. The City has subscribed to a compliance service, Kieri, to expedite the process with vetted templates and support. Those policies and standard operating procedures are being loaded into the new policy and procedure document repository, PowerDMS, which will go live in a matter of weeks. SOPs already completed since the audit include (Cyber) Risk Management Procedure and Assessment Template, Cyber Incident Response Plan (including Critical IT Infrastructure list and Critical Applications list), and the IT Asset Retrieval Process. Policies already completed since the audit include Risk Assessment Policy, Acceptable Use Policy Council and Board Members, Acceptable Use Policy Employees.
2. The City is developing a plan for formal, routine periodic (annual or more frequent) access reviews of users' rights over network and applications. The process will involve signoff by system owners and department heads for the employees with access rights.
3. The access for the 14 terminated individuals has been corrected. IT then conducted a full review of all AD and FinancePlus access to identify and eliminate any other cases. A new process has been put in place through the FreshService ticket system to ensure IT is aware of all staff separations, changes in job duties as well as changes to Council and Board members who have AD access for email.

## **Information Technology (Continued)**

### Management's Response (Continued)

4. A Change Management policy is in draft at this moment and concurrently the IT team is in discussions about our process and expectations of IT staff regarding documented Change Management. Change Management will be in place well in advance of the next audit.
5. IT has worked with HR to develop processes which ensure granting and approving new user access is consistent, and that such access is deemed appropriate by both HR and the employee's supervisor.

## **Accounts Payable**

### Comment

While no errors or irregularities were found during audit testing, our evaluation of internal controls identified one area in the accounts payable process which could be improved to reduce the risks associated with cash disbursements. We noted that some individuals within the Finance Department had the ability to create new vendors, enter invoices, prepare cash disbursement files, and process cash disbursements. In best practice, some of these responsibilities should be performed by different individuals.

It is our understanding that the City has recently implemented a layer of additional review for cash disbursement files uploaded to banks which strengthens its system of internal controls to address this matter.

### Recommendation

We recommend the City continue efforts to allocate responsibilities and implement other improvements to the system of internal controls over accounts payable.

### Management's Response

The accounts payable responsibility within the Finance Department is primarily conducted by one part-time position. For continuity of services, it is imperative that other individuals have the ability to process accounts payable in the event of absence. Due to limited resources, separating functions of accounts payable on a regular basis would reduce the timing and efficiency of the process. Additional staff would need to be considered. Recognizing this, it is important to understand that the internal control structure that has been in place for several years was designed to safeguard City funds from both internal and external risks and include:

- Monthly cash reconciliation performed by Finance Management;
- Several layers of approval for all invoices;
- Vendor verification process for name or address change requests; and
- Positive Pay – Electronic disbursement upload files to the bank to deter check fraud.

The City agrees with the recommendation and has added additional layers to the process that will strengthen the internal control structure.

1. A final review and approval of the electronic cash disbursement file prior to uploading to the bank, and
2. A two-step process of uploading and then sending the electronic cash disbursement file to the bank to be performed by two individuals.

## **Compensated Absences – Informational Only**

### Comment

The Governmental Accounting Standards Board (GASB) has issued Statement Number 101 related to compensated absences (accrued sick and vacation time, etc.). The Statement will become effective for fiscal year 2025.

Compensated absences are already reported in the City's financial statements. However, Statement Number 101 adds some considerations in determining the liability by stating that the liability should be recognized for leave that is "more likely than not" to be used, paid, or otherwise settled. In accordance with the Statement, the City will need to re-evaluate the liability in the context of "more likely than not", considering factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences.

### Recommendation

We recommend management continue to familiarize itself with the requirements of GASB Statement No. 101 and prepare for its implementation.