



April 16, 2025

To: City of Modesto Audit Committee  
 From: Moss Adams LLP  
 Subject: Internal Audit Status Report January 14, 2025 through April 16, 2025



INTERNAL AUDIT PROJECTS	WATER AND WASTEWATER UTILITIES FISCAL REVIEW	PAYROLL PROCESS AND CONTROLS REVIEW	RECOMMENDATION VALIDATION PROCESS	CAPITAL PROGRAM BEST PRACTICES	ACCOUNTS RECEIVABLE INTERNAL CONTROLS REVIEW	PERMITTING EFFICIENCY STUDY UPDATE
<b>Schedule</b>	August 2024 -February 2025	October 2024 - March 2025	August 2024 - June 2025	November 2024 - April 2025	March - June 2025	February - June 2025
<b>Budget Status: Total Budget and % Expended through 3/31</b>	\$55,000 100%	\$40,000 89%	\$15,000 77%	\$35,000 68%	\$35,000 38%	\$40,000 22%
<b>Activities for This Period</b>	Completed fieldwork and analysis, developed draft and final reports	Drafted and finalized report	Continue to close findings based on submitted documentation	Completed interviews and documentation review. Consolidated key takeaways and submitted initial observations and recommendations report. Met with key stakeholders to discuss initial feedback.	Held project kick-off, requested and received initial documents, completed interviews, consolidated key takeaways from interviews, prepared testing plan	Interviews nearly completed (90%), customer service survey of permit applicants is live, completed document review, began analysis.
<b>Activities for Next Period</b>	None	None	Continue to close findings based on submitted documentation	Incorporate management responses and issue final report.	Conduct fieldwork, compile findings, reporting	Finish analysis, develop draft and final reports
<b>Issues</b>	None	None	None	None	None	None

BASIC INTERNAL AUDITOR SERVICES	ONGOING INTERNAL AUDIT SERVICES
<b>Schedule</b>	July 2024 through June 2025
<b>Budget Status: Total Budget and % Expended</b>	\$30,000 69%

ETHICS HOTLINE STATISTICS				
Complaint Type	Complaints Received During the Period	Under Review	Referred to Appropriate City Official(s)	Closed
Compliance & Ethics	4	0	4	4
Fraud	0	0	0	0
Employment Matters	0	0	0	0

**City of Modesto - Audit Recommendations Tracking Report**

4/15/2025

	( A )	( B )	( C )	( D )
<b>Reports</b>	<b>Total Recommendations</b>	<b>Open Recommendations (Not Yet Completed by City)</b>	<b>Validated Recommendations (By Moss Adams)</b>	<b>Reportable Recommendations (Newly validated since last summary)</b>
Single Audit Report - 2017 (17-SAR )	4	0	4	0
Single Audit Report - 2018 (18-SAR )	3	0	3	0
Single Audit Report - 2019 (19-SAR )	1	0	1	0
Single Audit Report - 2020 (20-SAR )	1	0	1	0
Single Audit Report - 2021 (21-SAR )	1	0	1	0
2018-2019 Stanislaus County Civil Grand Jury (18_19-SCCGJ )	8	0	8	0
2022-2023 Stanislaus County Civil Grand Jury Final Report (22_23-SCCGJ )	5	0	5	0
2021-2022 Stanislaus County Civil Grand Jury Final Report (21_22-SCCGJ )	7	0	7	0
2024- FORESTRY AND SOLID WASTE EFFICIENCY STUDY UPDATE (24-FASWES )	20	14	6	0
2024- PROCUREMENT PERFORMANCE AUDIT (24-PPA )	11	11	0	0
2016- Solid Waste Efficiency Study (16-SWES )	12	4	8	0
2016-WATER AND WASTEWATER EFFICIENCY STUDY UPDATE (16-WWE )	14	3	11	1
2017- BILLING AND ACCOUNTS RECEIVABLE REVIEW (17-BAR )	4	0	4	4
2017- FLEET SERVICES EFFICIENCY STUDY (17-FSE )	27	5	22	0
2017- INTERNAL CONTROLS TESTING: PROCUREMENTCARDS (17-ICTPC )	19	1	18	1
2017-INTERNAL CONTROLS TESTING: TRAVEL EXPENSES (17-ICTTE )	17	0	17	0
2017- INTERNAL SERVICE FUND REVIEW (17-ISF )	18	11	7	1
2018- Fleet Utilization Study (18-FUS )	13	8	5	0
2018- PERMITTING EFFICIENCY STUDY (18-PES )	10	0	10	3
2016 INTERNAL CONTROLS TESTING: CASH HANDLING (16-ICTCH )	42	2	40	0
	0	0	0	0
	0	0	0	0
<b>Total</b>	<b>237</b>	<b>59</b>	<b>178</b>	<b>10</b>

**Legend:**

Total Recommendations = number of recommendations in the report

Open Recommendations = number of recommendations not yet completed by City

Validated Recommendations = number of recommendations validated by Moss Adams as completed and adequately addresses the finding

Reportable Recommendations = number of recommendations validated since last summary report for Audit Committee

ID	Finding Number from Report	Report Year	Report Code	Finding	Recommendation	Moss Adams Determination Notes
73	12A	2016	16-WWE	Pay grades for most Water and Wastewater positions are lower than neighboring cities.	Review compensation and benefits for Water and Wastewater positions and consider adjusting compensation accordingly.	most recent class/comp study for utilities was provided and dated 2023 Final.
75	1	2017	17-BAR	Community and Economic Development (CED) Department billing procedure documents have not been updated within the last four years.	Review and update departmental billing procedures, and institute an annual or biennial review process.	Permit Accounting Procedures were provided and have an approval data of 8/1/2024. The city reports that the procedure will be reviewed and updated annually.
76	2	2017	17-BAR	The Risk Management claims settlement process is inefficient.	Establish and document claims settlement procedures.	Claims Settlement documentations was provided. Broken up in to two section. A process for Under 50K non-litigated and a process for those litigated.
77	1	2017	17-BAR	Risk management claims are tracked on an Excel spreadsheet, which results in process inefficiencies and presents a risk of error.	Consider implementing a claims management system.	City provided the vendor contract with the the TPA, George Hills Company. That agrrement was approved by Council on May 25, 2021
78	2	2017	17-BAR	Billing activities are performed outside of the Oracle ERP system.	Investigate possibilities to integrate the billing process into Oracle.	Permit Accounting Procedures were provided and have an approval data of 8/1/2024. Based on the procedures provided there is an integration with GL and Oracle
132	10	2017	17-ICTPC	Although the City performs P-Card audits each month, the current approach may not be the most efficient or effective.	Modify current P-Card audits to provide more timely and robust oversight.	Provided April, May and June 2024 P card Audit logs. They list every cardholder by name, mark if it was reviewed with no concern. If there is needed justification that information is provided along with the Pcard #
158	17	2033	17-ISF	N/A	Continue to adequately fund the Mail ISF. Consider changing the funding formula to better match current utilization levels.	We reviewed the Mail Service ISF provided, Dated FY24/25 and calculations seem to match utilizations numbers.
178	6	2018	18-PES	Inconsistent and Outdated Policy and Procedure Documentation	Strengthen policies and procedures, cross-training, and workforce planning; prioritize the documentation of policies and procedures related to the various permitting processes, updating outdated policies and documenting previously uncaptured processes, and identifying key personnel.	the City provided all the permitting related policies and procedures. Ther were revised as of 10/7/24. Policies and Procedures cover topis around Accoutning and permitting, Buildign Safety, Board of Buildign Appeals, Rental Housing Safety Program and Vacant Property Registrations.
180	8	2018	18-PES	Negative Impacts to Customer Service at Development Services Center	Reevaluate how the Development Services Center reception counter is staffed, and provide training on customer service expectations and permitting activity processes.	MOU of the receptionist position was provided and was signed in oct 2020. The city also provided a list of all the trainings received by the reception staff between Jan and Nov 2024. Training topics include: ADA Parking; COD/RCOD Mailings; TCO Processing; New Notice and Order Procedure; All Gender Restrooms; Mobilehomes on permanent foundations; New Deposit Permit Reports; Locking Parcels; TCO Procedures; Romex Wiring; Historic Parcels; New Inspector Onboarding; Soft Skills for Building Safety Staff; Inspection Conditions
181	9	2018	18-PES	Lack Capacity for Environmental and Stormwater Related Permitting Activities.	Prioritize appropriately resourcing and staffing the positions required to safely and efficiently conduct the environmental and stormwater requirements for permitting activities.	The KPIs provided for all of 2024 showed that the environmental and stormwater plan checks are occurring timely and they were continually being tracked and monitored



# Payroll Internal Controls Review

City Auditor's Office  
April 23, 2025



## Objectives and Scope

The purpose of this internal controls review was to assess select key controls within the Finance Department (City Payroll), along with payroll interactions between the Police Department (PD) and Fire Department (FD).

The review was conducted between September 2024 and February 2025.

---



# Methodology

**Project Initiation:** Comprehensive planning and project management.

**Fact Finding:** Comprehensive document review and interviews with City Payroll, Human Resources (HR), and FD and PD management and staff.

**Analysis:** Comparison of City Payroll, FD, and PD practices to industry standards and best practices; identification of opportunities for improvement and practical recommendations.

**Reporting:** Presentation of report in draft format, to confirm the practicality of recommendations with management before finalizing.

---



# Commendations

Well-designed internal controls for the following processes:

- Time entry approvals from employee supervisors within PD and FD
  - Hiring and termination approvals from the HR Department
-



## Key Themes – Timekeeping Systems

- For timekeeping:
    - City Payroll uses Oracle
    - FD uses Resource Management System
    - PD uses InTime
    - This system structure is common among similarly sized cities
  - Using three different systems creates additional manual processes within the departments
  - Consider utilizing timekeeping systems that automatically integrate with Oracle, or developing automated workflows to integrate Resource Management System and InTime with Oracle
-



# Key Themes – Documenting Reviews and Approvals

- City Payroll has a strong audit process that their staff completes each pay period; however, a process isn't in place for reviewing and approving this completed work.
  - Without this review, the risk of potential errors in the audit process increases.
  - City Payroll should designate a reviewer for this payroll audit each pay period and include this review and approval in the audit workbook.
-



CITY OF  
**MODESTO**  
CALIFORNIA



# **WATER AND WASTEWATER UTILITIES FISCAL REVIEW PERFORMANCE AUDIT**

City Auditor's Office  
April 23, 2025



## Objectives and Scope

- The purpose of this performance audit was to evaluate the City's fiscal management of its water, wastewater, and storm drain utilities to identify opportunities for improvement in sustainability, effectiveness, equity, and transparency
  - This performance audit was conducted between September 2024 and January 2025
-



# Methodology

- **Project Initiation:** comprehensive planning and project management
  - **Fact Finding:** interviews and focus groups with 22 City staff, comprehensive document review, and peer benchmarking
  - **Analysis:** conducted a sources and uses analysis, researched best practices and identified opportunities for improvement and practical recommendations
  - **Reporting:** presented report in a draft format to confirm the practicality of recommendations with management before finalizing
-



# Commendations

- Billing system improvements
  - Collaborative budget process
  - High customer satisfaction
  - Equity focused rate study process
  - Rate study process generally aligned with best practices
-



## Key Themes – Utilities Fund Expenditures

- The Department lacks a systematic approach to tracking total anticipated project costs within its CIP, impacting transparency and fluctuations in project costs
  - The City lacks key maintenance data, an asset management system, and staff capacity to effectively address utility-related maintenance needs
-



## Key Themes – Funding Mechanisms

- The storm drain budget is projected to decline over the next five years, impacting the City's ability to maintain the program
  - Although water and wastewater rates have increased in recent years, fees have not been adjusted in over a decade which could result in insufficient revenue to cover costs
  - The Department lacks the capacity to pursue and manage more grants effectively due to the absence of a dedicated grants management position
-



CITY OF  
**MODESTO**  
CALIFORNIA



# FY25-26 INTERNAL AUDIT WORK PLAN

Audit Committee Meeting  
April 23, 2025



# Internal Audit Overview

- The City retained Moss Adams to serve as the designated Internal Auditor and conduct projects focusing on:
    - Risks
    - Internal controls
    - Efficiency and effectiveness
    - Best practices
    - Compliance
  - Work is being completed under appropriate industry standards (IIA, GAGAS, AICPA)
-



# Holistic Internal Audit Program Approach





# Internal Audit Program Review

Department	Project	Department	Project
Community & Economic Development	Permitting (25)	Information Technology	
Engineering Services		Parks, Recreation, and Neighborhoods	
Finance	Procurement (24), Payroll (25), AR (25)	Police	
Fire		Public Works	Fleet Controls (24), Solid Waste & Forestry (24)
Human Resources		Utilities	Fiscal Review (25)
Citywide Projects	Internal Controls Review (24), FWA Policy & Training (24), Property Management (24), Capital Program (25)		



# Internal Audit Program Review

Focus	Accomplishments
Enterprise Risk Assessments	2022*
Enterprise Internal Controls Review	2024
Functional Internal Controls Reviews	3
Functional Internal Controls Testing	To come
Performance Projects	5
Recommendations Validated Implemented & Tracked	178/237
Ethics Hotline Statistics	Over 190 reports since 2016

5

*\*conducted prior to Moss Adams contract*



# Potential FY25-26 Internal Audit Projects

## Performance projects:

1. Enterprise risk assessment
2. Parks, Recreation & Neighborhoods performance audit
3. Homelessness response performance audit
4. Fee benchmarking & cost recovery audit
5. Prior audit update: Transportation or fleet
6. Prior audit update: Utilities operations
7. Contract audit: City Attorney
8. Measure H compliance & performance audit
9. Governance assessment: Committees, commissions, & boards

## Internal controls and compliance projects:

1. IT policy review
2. P-card internal controls testing
3. Cash handling internal controls testing

## Program management:

1. Recommendation validation
  2. Ongoing internal audit program management
-



## Recommended FY25-26 Internal Audit Program

- 1. Enterprise risk assessment:** Identify, analyze, and measure risks by the level of inherent vulnerability, the level of preparedness to mitigate them, and the impact such negative events could have on the City should they occur. This assessment informs the three-year internal audit work program.
  - 2. IT policy review:** Review IT Department policies, identify gaps and opportunities for improvement, and support the Department during the policy update process.
  - 3. Cash handling internal controls testing:** Test internal controls related to cash handling activities across the City.
  - 4. Homelessness response performance audit:** Assess economy, efficiency, and effectiveness of the City's response to homelessness in the community. Compare City practices to industry best practices.
  - 5. Fee benchmarking & cost recovery audit:** Review the City's fee schedule, compare fees to peers, and assess the extent to which fees cover costs.
  - 6. Parks, Recreation & Neighborhoods performance audit:** Assess economy, efficiency, and effectiveness of departmental operations and compare to industry best practices.
  - 7. Recommendation validation:** Continue to track and validate recommendation implementation.
  - 8. Ongoing internal audit program management:** City Auditor activities including overseeing the internal audit program and managing the fraud, waste, and abuse hotline.
-



# Recommended Internal Audit Program

Project	Budget	7-9/24	10-12/24	1-3/25	4-6/25
Enterprise risk assessment	\$45,000	████████████████████			
IT policy review	\$25,000		████████████████████████████████████████		
Cash handling internal controls testing	\$30,000		████████████████████████████		
Homelessness response performance audit	\$40,000		████████████████████████████████████████		
Fee benchmarking & cost recovery audit	\$40,000			████████████████████████████████████████	
Parks, Recreation & Neighborhoods performance audit	\$35,000			████████████████████████████████████████	
Recommendation Validation	\$10,000	████████████████████████████████████████████████████████████████████████████████			
Ongoing Internal Audit Services	\$25,000	████████████████████████████████████████████████████████████████████████████████			
<i>Total</i>	<i>\$250,000</i>				



CITY OF  
**MODESTO**  
CALIFORNIA



# EMPLOYMENT AFTER RETIREMENT REVIEW

Conducted by CalPERS Office of Audit Services

Christina Alger, Director of Human Resources  
Audit Committee ~ April 23, 2025



## BACKGROUND

Contracts



- Safety and Miscellaneous

Provisions



- State statute and City Resolution

Audits



- Random audits on compliance

Process



- Topic chosen and multi-agency review



# HISTORY

- In March 2024, CalPERS informed the City they were conducting a review of the City's use of Retired Annuitants (RA).
  - Government Code Sections 21220.5, 21221, 21224, 7522.56 and Title 2 of California Code of Regulations sections 579.25 and 586.2 have specific guidelines public agencies must follow to maintain compliance with employing those that are collecting retirement benefits from CalPERS.
  - CalPERS reviewed 25 Public Agencies, including City of Modesto, who reported active RA appointments.
  - The review period was January 1, 2020 - December 31, 2023.
-



# HISTORY/ DRAFT REPORT

- Six (6) Retired Annuitants were selected for review.
  - CalPERS Reviewers were provided timecards, payroll records, RA contracts, signed exclusion forms and other associated documents.
  - The City was provided a draft report of the results on September 10, 2024.
  - There were four (4) areas of findings identified:
    - Two (2) RA's did not certify they had not received unemployment benefits
    - One (1) RA was not supported
    - One (1) RA not supported as extra help
    - Two (2) RA's hours inaccurately reported to CalPERS
-



## DRAFT REPORT RESPONSE/ REVIEW

- Human Resources and Payroll responded to the Draft report.
  - Staff agreed with finding One (1) missing certification of not having the unemployment certification from initial contract. This was resolved in contracts created after 2022.
  - Staff agreed with finding Four (4).
    - One (1) RA worked over the number of hours
    - One (1) RA hours were inaccurately reported when a time sheet correction was not reported to CalPERS
  - Staff disagreed with finding two (2) and three (3).
-



## ONGOING AUDIT

- A complete audit of all employees with DOB prior to 1/1/1971 was initiated by CalPERS Office of Audit Services (OFAS).
  - OFAS recently requested hiring documents, timecards, and other hiring paperwork for 65 current and former RA's.
-



# MOVING FORWARD

## Contract revision

- Initiated in 2019 and revised in 2022

## Justification

- Revised process of justifying need in 2024

## Policy update

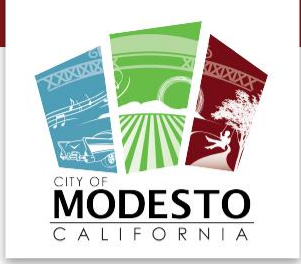
- Updated to reflect term limits in 2025

## Monitoring

- New monitoring process implemented in 2025

## Education

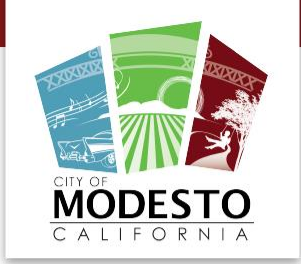
- Attending CalPERS training opportunities moving forward



## STAFF RECOMMENDATION

Motion recommending accepting the final report of the Employment after Retirement Review conducted by California Public Employees' Retirement System (CalPERS) and forwarding to Council for approval.

---



**QUESTIONS?**

---