



CITY AUDITOR'S OFFICE
FINAL REPORT



PAYROLL INTERNAL CONTROLS REVIEW

March 28, 2025

Moss Adams LLP
999 Third Avenue, Suite 2800
Seattle, WA 98104
(206) 302-6500



This report is intended for the internal use of City of Modesto,
and may not be provided to, used, or relied upon by any third parties.



Table of Contents

I. Executive Summary	1
A. Introduction	1
B. Summary of Results	1
II. Introduction	2
A. Background	2
B. Scope and Methodology	2
C. Statement of Compliance with GAGAS	3
III. Payroll Internal Controls Review	4





I. EXECUTIVE SUMMARY

A. INTRODUCTION

As part of the fiscal year 2025 internal audit program, the Modesto City Auditor, Moss Adams LLP (refer to as “Moss Adams” or “we”), conducted a review of select aspects of the City of Modesto’s (the City) payroll internal controls framework. This review took place between September 2024 and February 2025 and focused on assessing select key controls for the payroll interactions amongst the Finance Department (City Payroll), the Police Department (PD), and the Fire Department (FD).

B. SUMMARY OF RESULTS

Based on the review performed, we identified the following examples of commendable activities that appeared to have well-designed internal controls across the City:

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

There were opportunities to strengthen controls, policies, procedures, and systems within the City. Suggested priorities to address over the next 6 to 12 months include, but are not limited to:

- Implementing a unified timekeeping system for both the PD and FD that integrates with Oracle or using automated data transfer tools to integrate PD and FD timekeeping data more seamlessly with Oracle.
- Strengthening City Payroll’s routine audit process.



II. INTRODUCTION

A. BACKGROUND

As part of the City's fiscal year 2025 internal audit program, Moss Adams conducted a payroll internal controls review to determine the general adequacy of internal controls around the City's payroll function specific to PD and FD to identify areas for improvement.

The City has a centralized payroll and timekeeping function, with the exception of the PD and the FD. Currently, the City utilizes the Oracle system for tracking and reporting employee time, pay rates and processing the City's payroll biweekly. The PD utilizes an external timekeeping system (InTime), from which final timecards are exported and then manually imported into Oracle for payroll processing. The FD utilizes an external timekeeping system (Resource Management System), from which final timecards are exported and then manually imported into Oracle for payroll processing. Individual employees report their time in their respective systems, which is subsequently reviewed and approved by an assigned supervisor or manager. City Payroll is responsible for processing payroll within Oracle for each pay period.

The HR Department is responsible for setting up new employees, entering and editing pay rates, and processing employee terminations.

B. SCOPE AND METHODOLOGY

The scope of the internal controls review included the following functions specific to PD and FD:

- Approving timecards
- Approving time corrections
- Reviewing timecard exports
- Reviewing payroll reconciliation reports
- Documenting controls and processes within policies and procedures

For the payroll function, as it relates to the PD and FD, we conducted a review of identified key controls within the payroll function, which included:

- Identifying control objectives in specific areas and controls that would satisfy each objective
- Reviewing policies and procedures
- Examining relevant documentation in support of select payroll key controls
- Performing control walkthroughs to observe the design of key controls and understand workflow processes
- Obtaining an understanding of each relevant control activity's characteristics (i.e., who performs it, how often it is designed to operate, whether it is designed to mitigate fraud, whether it is a manual or automated control, and whether it is a preventive, detective, or corrective control)
- Assessing whether the controls in place would prevent or detect errors
- Providing recommendations on key controls that need to be implemented or changed



The work performed included interviews with City Payroll and HR management and staff, and PD and FD employees who oversee timekeeping in their respective departments.

In support of the internal controls review, the matrix provided in Section III provides results by including the following:

- Control objectives
- Control issues
- Recommendations
- Likelihood of occurrence
- Impact of occurrence

“Likelihood of occurrence” is defined as the probability of a negative event occurring. “Impact of occurrence” is defined as the level of significance if a negative event occurs. Risk levels of low, moderate, and high were used to rate the likelihood and impact of occurrence for each finding.

Beyond the controls that are noted within this report as issues, additional controls were reviewed without exception. Key controls with exception conditions are reported in this report.

C. STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this internal controls review in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the internal controls review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives. The internal controls review, control objectives, control issues, recommendations, and conclusions on the likelihood and impact of occurrence are included in this report.

This internal controls review did not constitute an audit of financial statements in accordance with GAGAS. Moss Adams was not engaged to, and did not, render an opinion on the City’s internal controls or over financial management systems.



III. PAYROLL INTERNAL CONTROLS REVIEW

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
1	Timekeeping systems used within the PD and FD are seamlessly integrated within Oracle.	<p>During our testing procedures and interviews with the PD and FD, it was discovered that each department utilizes its own unique timekeeping systems from which they have to extract reports to send to City Payroll for processing. The PD and FD have much more complex scheduling and timekeeping needs compared to other City departments, which necessitates the separate systems.</p> <p>These systems differ from the one used by City Payroll (Oracle) to record time for all other departments, and these systems do not automatically integrate with Oracle. The use of different systems creates additional manual work for both the FD and PD, as well as for City Payroll, which increases the risk of payroll errors or inconsistencies.</p>	<p>The timekeeping system structure for the PD and FD is similar to that of other similarly sized cities, with each department utilizing distinct timekeeping systems to meet their specific needs. Additionally, during our research, we found that it is common practice among cities to perform manual processes on system extract files before importing them into the main timekeeping system similar to the City. These manual processes are necessary to ensure accurate data management for payroll processing.</p> <p>Although PD and FD have distinct timekeeping systems given their unique scheduling and timekeeping needs, the City should consider utilizing timekeeping systems that automatically integrate with Oracle to alleviate the burdens of the manual processes that the City currently performs. Based on the PD's and FD's scheduling and timekeeping needs, the City should contact Oracle to explore the compatibility of the following systems, as it appears that the systems below integrate with Oracle:</p> <ul style="list-style-type: none"> ● ADP ● Paychex ● Ceridian Dayforce ● UltiPro ● Paylocity ● Workday ● SAP SuccessFactors 	High	High



NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
			<p>Alternative to adopting new timekeeping systems, the City should consider whether it can develop automated workflows to integrate the current PD and FD timekeeping systems (InTime and Resource Management System, respectively) with Oracle. This might entail using automated data transfer tools that can facilitate a seamless transfer of timekeeping data from the PD and FD's systems into Oracle.</p> <p>These approaches would centralize timekeeping functions, enabling City Payroll to manage all checks and balances each pay period.</p> <p>Lastly, pertaining to the payroll staffing structure, interviews with employees from both the PD and FD confirmed that they are effectively managing their timekeeping systems with adequate staffing to implement necessary controls, reflecting their commitment to operational efficiency and accuracy. Additionally, compared to other similarly sized cities, the City's payroll staffing structure appears to be at a reasonable level.</p>		
2	As part of its routine payroll audits, City Payroll reconciles the PD's and FD's timecard detail reports prior to importing into Oracle and after importing into Oracle to ensure that payroll is calculated and paid accurately based on	City Payroll retains an audit checklist, which among other tasks, includes documenting all timecard reconciliation procedures performed on timecard imports from the PD and FD timekeeping systems into Oracle. Although the City provided evidence of the individual who prepared the reconciliation on the checklist, it	<p>The City should implement a process to add a column to the current audit checklist that documents who reviews each type of task (including the PD and FD timecard reconciliations) related to the FD and PD timecard data. When reviewing, the designated reviewer should perform the following tasks:</p> <ul style="list-style-type: none"> Documentation of the Review Process: Ensure that the preparer has documented their review process clearly, including any 	High	Moderate



NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
	final approved timecards. City Payroll also designates an employee to review and approve these reconciliations.	did not designate an employee to review the reconciliation performed and the entire audit checklist as a whole. The absence of a documented reviewer in the checklist increases the likelihood of errors going unnoticed during the audit process, potentially leading to inaccuracies in payroll processing.	<p>checks performed, discrepancies noted, and actions taken to resolve issues.</p> <ul style="list-style-type: none"> ● Consistency with Policies and Procedures: Verify that the preparer's review and documentation align with any established payroll policies and procedures. This includes adherence to potential guidelines for sufficient documentation and timeliness of the audit checklist tasks. ● Error Identification and Resolution: Check that the preparer has identified any errors or discrepancies in the timekeeping data and taken appropriate steps to resolve them. This includes following up on any outstanding issues. ● Cross-Verification: Look for evidence that the preparer has cross-verified the timekeeping data with other relevant records such as employee schedules, leave requests, and previous payroll records. ● Timeliness of the Review: Ensure that the review was completed within the established timelines to avoid delays in payroll processing. <p>This additional layer of review will help enhance accountability and ensure that all steps in the payroll process are thoroughly complete, accurate, and verified.</p>		
3	The FD and PD review their respective timecard reports prior to submission to City Payroll.	Based on interviews, both the PD and FD have extensive review processes in place prior to sending timecard reports to City Payroll; however, the actual timecard reports are not signed	The FD and PD should implement a process to document review and approval of timecard reports prior to being sent to City Payroll. Each department should first designate an employee who will be responsible for performing this review, along with a backup	High	Low



NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
		<p>off as evidence of review prior to sending out—although it appears that the PD and FD do conduct these reviews. The absence of evidence of review/approval increases the likelihood of errors going unnoticed and decreases the level of accountability, potentially leading to inaccuracies in payroll processing.</p>	<p>employee. After conducting the review, the reviewer should document evidence of their review. This can be an email stating completion and review, physical signoff on reports, or something similar.</p>		
4	<p>The checklist used to generate the PD timecard report for submission to City Payroll is reviewed and approved prior to sending the report.</p>	<p>The checklist used by the PD to generate the timecard report for submission to City Payroll does not have documented evidence of being reviewed or approved. The absence of a documented reviewer in the checklist increases the likelihood of errors going unnoticed during the review process and decreases the level of accountability, potentially leading to inaccuracies in payroll processing.</p>	<p>The PD should implement a process to document review and approval of the checklist used to submit timecard data to City Payroll. The PD should first designate an employee responsible for conducting this review, along with a backup employee. The reviewer should ensure that all steps of the checklist were followed by the preparer, and any discrepancies should be investigated. After completing the review, the reviewer should document evidence of their review, which can be accomplished by adding a "Reviewer" signature section within the checklist to record the overall review and approval of all outlined steps.</p>	High	Low
5	<p>Within the FD, all timecard corrections are approved by the Captain or the Chief.</p>	<p>We obtained corrected timecards for each of our eight sample selections, noting that the Chief's signature was provided at the bottom of the page. However, it was unclear whether the signature indicated approval of the original timecard or the corrected timecard.</p>	<p>The FD should implement a process that clearly documents review and approval for timecards and separately documents review and approval of timecard corrections. This updated process might include using differently colored pens to identify approvals of original timecards and approvals of corrected timecards. It could also include having a specific line on timecards for original timecard</p>	Moderate	Low



NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
		Without clarity around timecard approvals, the risk increases for incomplete or inaccurate timecards.	approval and a secondary line for corrected timecards.		



MOSSADAMS