

*Proprietary & Confidential*

FINAL REPORT



**ACCOUNTS RECEIVABLE INTERNAL CONTROLS REVIEW**

July 7, 2025

Baker Tilly Advisory Group, LP  
999 Third Avenue, Suite 2800  
Seattle, WA 98104  
(206)302-6500



*As of June 3, 2025, Moss Adams LLP has merged with Baker Tilly.*

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

# Table of Contents

<b>I. Executive Summary</b>	<b>1</b>
A. Introduction	1
B. Summary of Results	1
<b>II. Background, Scope, and Methodology</b>	<b>2</b>
A. Background	2
B. Scope and Methodology	2
C. Statement of Compliance with Generally Accepted Government Auditing Standards (GAGAS)	3
<b>III. Accounts Receivable Internal Controls Review</b>	<b>4</b>

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, operate under an alternative practice structure and are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

# I. Executive Summary

## A. Introduction

As part of the fiscal year 2025 internal audit program, the Modesto City Auditor, Moss Adams LLP (Moss Adams), conducted a review of the City of Modesto's (the City) accounts receivable (AR) internal controls framework. The review took place between March 2025 and June 2025 and focused on assessing select key controls related to utility billing and miscellaneous AR within the Finance Department along with assessing AR interactions between the Finance Department, Police Department (PD), Fire Department (FD), Human Resources (HR), Public Works, Airport, and Building Safety.

## B. Summary of Results

Some examples of commendable activities, based on the review performed, include the following:

- **Staff Willingness to Learn:** The City has demonstrated a strong commitment to professional development, with staff actively engaging in training opportunities to enhance their skills and knowledge in AR processes.
- **Implementation of a New AR System:** The City is in the process of implementing a new AR system that is better aligned with its operational needs and it is expected to improve efficiency and accuracy in billing and collections.
- **Daily Cash Reconciliation:** The City has a process designed to reconcile daily cash receipts to the deposit amounts, ensuring accuracy in financial reporting and maintaining the integrity of its cash management processes.
- **Thorough Review of End of Day Reports:** Staff have a practice to review the End of Day Report, which is posted to the general ledger, prior to uploading it into Oracle. This practice enhances the accuracy of financial data and supports effective financial oversight.

There were opportunities to strengthen controls, policies, procedures, and systems within the City, particularly during the implementation of the new AR system. We recommend the City address the following over the next 12 to 18 months:

- **Lack of Formal Approval Processes:** Several instances were identified where documentation lacked a structured approval process, including final notices, balancing reports, and journal entries, raising concerns about accountability and the potential for fraudulent activity.
- **Insufficient Documentation and Recordkeeping:** In multiple cases, documentation was either not saved or inadequately recorded, such as supervisor approvals captured only in email strings and discrepancies in billing systems without a clear audit trail.
- **Need for Enhanced Review Procedures:** We recommend the City establish formal review protocols, implement electronic approval workflows, and ensure that all review actions are documented to strengthen internal controls and improve compliance.

## II. Background, Scope, and Methodology

### A. Background

As part of the City's fiscal year 2025 internal audit program, Moss Adams was engaged to conduct a comprehensive review of AR function internal controls. The purpose of this review was to evaluate the adequacy of existing internal controls, identify potential areas for improvement, and evaluate for compliance with select established policies and procedures.

The City maintains a centralized AR function, which is integrated with its financial management system, NaviLine. Currently, the City utilizes an aging AR system that has been in operation for 25 to 30 years; however, they are in the process of implementing a new system expected to go live by the beginning of October 2025. In light of this transition, the City sought a comprehensive review of current controls prior to the new system's implementation to establish a baseline and obtain recommendations for improvement. This transition is critical for enhancing the efficiency and effectiveness of the AR processes, which include billing and cashing functions.

The Finance Department is responsible for processing all AR transactions within the City's financial management system. This includes the oversight of billing, collections, and related reconciliations. The Finance Department works closely with other City departments, such as Utilities, to ensure accurate processing and reporting of receivables.

### B. Scope and Methodology

The scope of the internal controls review included the following AR functions:

- Invoicing
- Payment Processing
- Collections
- Reconciliation
- Documentation
- Cross-Departmental Collaboration

For the AR function, we conducted a review of identified key controls within the AR function, which included:

- Identifying control objectives in specific areas and controls that would satisfy each control objective
- Reviewing policies and procedures
- Examining relevant documentation in support of select key controls
- Performing control walkthroughs to observe the design of key controls and understand workflow processes
- Obtaining an understanding of the characteristics of each relevant control activity (e.g., 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
- Verifying controls by obtaining relevant documentation and comparing it to the specified control
- Providing recommendations on key controls that need to be implemented or changed

The work performed included interviews with Finance Department management and staff about utility billing and miscellaneous AR, HR management and staff, and PD and FD employees who oversee AR in their respective department.

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

- Control objective
- Control issue
- Recommendation
- 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, or high were used to rate the likelihood of occurrence and impact of occurrence for each finding.

Beyond those controls that have been noted within this report as an issue, additional controls were reviewed without exception. Key controls with exception conditions are reported in this document.

## **C. Statement of Compliance with Generally Accepted Government Auditing Standards (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. Accounts Receivable Internal Controls Review

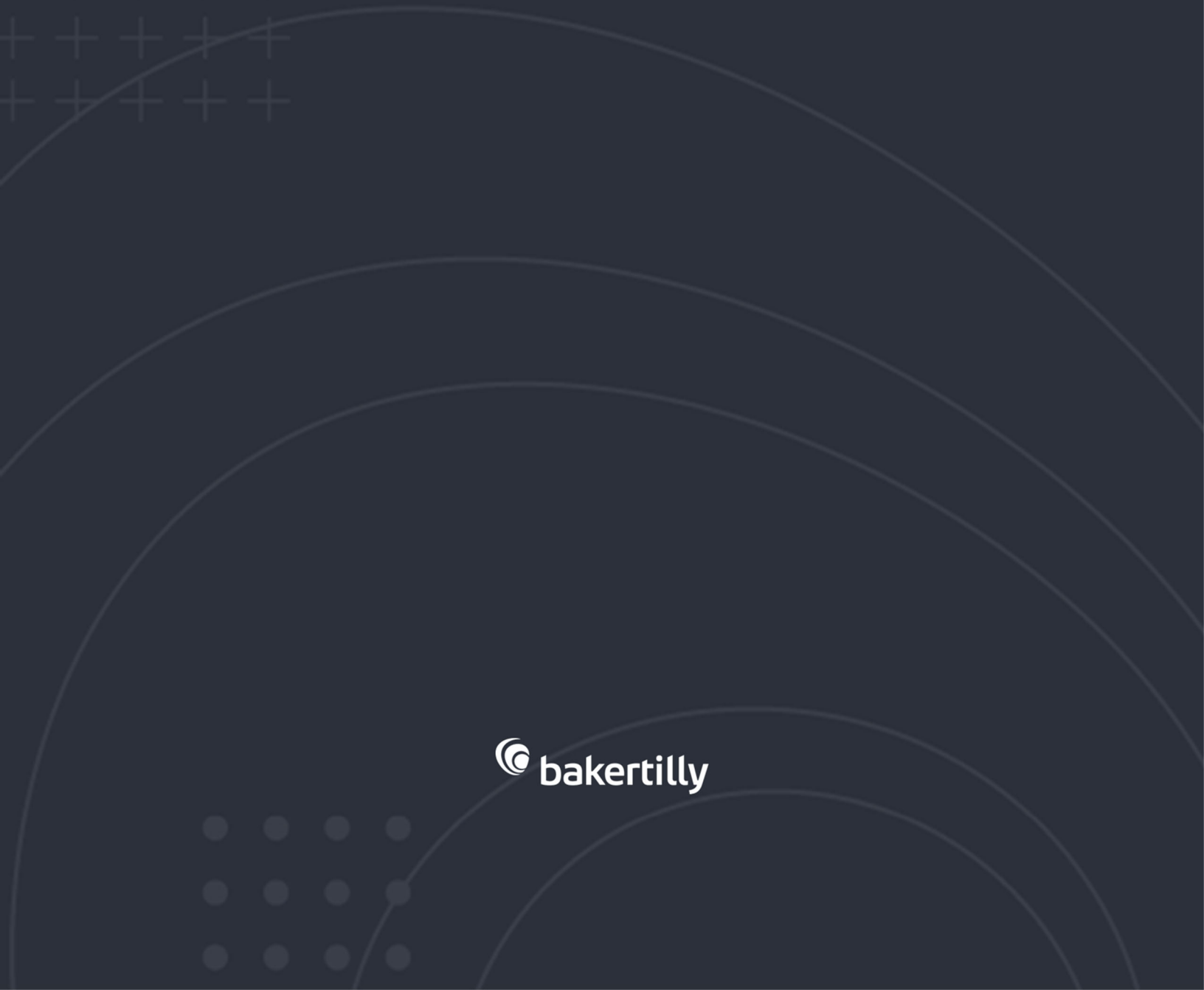
NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
Miscellaneous Accounts Receivable					
1	The approval process for monthly reconciliations between Oracle and NaviLine is well-documented.	<p>During our review of the approvals of the monthly financial reconciliations report, which reconciles NaviLine with Oracle, provided by the City, we identified that for 66% of the selected reports, approval consisted solely of a name and date typed into the Excel file. This method of approval lacks sufficient verification measures, prompting a need to ensure approvals are made only by authorized users to maintain integrity.</p> <p>Additionally, for one of the selections, the monthly reconciliation between Oracle and NaviLine did not include any evidence of review and approval by the Senior Financial Analyst, further highlighting deficiencies in the approval process.</p>	<p>We recommend the City implement a more robust approval process that requires documented and verifiable evidence of review, such as electronic signatures or approval workflows within the financial system. This should include clear identification of the approver's identity and authorization level to mitigate the risk of fraudulent activity.</p> <p>Furthermore, it is essential to ensure that all reconciliations are formally reviewed and approved by designated personnel, with appropriate documentation retained for audit purposes. Regular training on these procedures should also be conducted to reinforce compliance and enhance the overall integrity of the financial reporting process.</p>	High	Low
2	The review and approval process for daily report extracts from NaviLine to be imported into Oracle via Journal Entry is secure and verifiable.	Report extracts from NaviLine should be reviewed for accuracy by comparing the extract balance to the system balance prior to the import to Oracle to ensure accurate data transfer. During our review of the daily report extracts from NaviLine provided by the City, we	The City should establish a more secure and verifiable approval process for financial documentation. This process should require the use of electronic signatures or an approval workflow within the financial system to ensure that approvals are traceable and verifiable.	High	Low

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
		<p>noted that the reports sampled lacked evidence of formal approval for the data. The approval included was merely a name and date typed into the Excel file, which does not provide adequate assurance of authenticity and underscores the importance of safeguarding approval processes to prevent unauthorized access and ensure integrity.</p>	<p>Additionally, it is crucial to maintain a clear record of the approver’s identity and their authorization level. Implementing these measures will enhance the integrity of the approval process and reduce the risk of unauthorized or fraudulent activity in the future. Regular training should also be provided to staff to ensure compliance with these enhanced procedures.</p>		
3	<p>All customer account adjustments in the financial system follow the appropriate approval thresholds and are reviewed and approved by the Senior Financial Analyst via the monthly “Adjustment Report.”</p>	<p>Prior to this project, formal procedures were in place to manage the review and approval process for customer account adjustments. However, documentation evidencing these reviews and approvals—such as emails confirming the process—was not consistently saved or retained.</p> <p>In an email from the Director of Finance dated April 18, 2025, it was acknowledged that while the procedures existed, the lack of retained documentation made it difficult to verify compliance.</p>	<p>We recommend the City enhance the documentation and retention practices related to the existing review and approval procedures for the Adjustment Report to ensure compliance and accountability. The Director of Finance indicated that corrective measures would be implemented immediately to strengthen documentation practices. Specifically, the Financial Analyst will be responsible for pulling and reviewing the adjustment report monthly, and the Senior Financial Analyst will provide final approval, with all approvals to be included alongside other monthly documentation associated with this position. Additionally, this should include reinforcing the importance of saving and organizing evidence—such as emails or approval records—that demonstrate the Financial Analyst’s monthly review and the Senior Financial Analyst’s final approval.</p> <p>Additionally, implementing a centralized tracking system to document and store</p>	High	High

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
			<p>monthly review and approval activities will help ensure all approvals are consistently recorded and readily accessible for audit purposes. Regular training should be conducted to reinforce staff awareness of these documentation requirements and adherence to established procedures, thereby strengthening the overall effectiveness of the internal control framework.</p>		
4	<p>Open Charge Reports for outstanding grants are reviewed and approved prior to distribution.</p>	<p>Per discussion with the Director of Finance, it was noted that there is currently no formal approval process in place for the Open Charge Reports. These reports are distributed to Analysts to ensure that any outstanding grants are being followed up on and the emails related to this process are saved as part of the updated documentation. However, the absence of a structured approval mechanism emphasizes the need to improve accountability and enhance the effectiveness of the follow-up process.</p>	<p>We recommend the City implement a formal approval process for Open Charge Reports to enhance accountability and ensure that outstanding grants are appropriately monitored. This process should include identifying designated personnel responsible for reviewing and approving the reports before they are disseminated to Analysts.</p> <p>Additionally, a standardized documentation procedure should be established to retain records of approvals, including timestamps and signatures, to provide a clear audit trail. Regular training should be conducted to ensure that all staff understand the importance of this process and adhere to the established procedures, thereby improving the overall effectiveness of the internal control framework.</p>	High	Moderate
5	<p>Direct supervisor approvals of account adjustments are well-documented, and documentation is</p>	<p>Direct supervisor approval is required for account adjustments at the time the adjustment occurs. During discussions with the Director of Finance, it was noted</p>	<p>We recommend the City establish a more robust documentation process for supervisor approvals to ensure that all approvals are properly recorded and retained. This process should include the</p>	Moderate	Low

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
	retained and searchable.	that the AR Division permitted supervisor approvals to be documented solely through email correspondence during the audit period, with the supervisor included as a courtesy copy on the email. The specific email that contained the approval for the sampled adjustment could not be located, as it was not saved in their files. The department had hoped that the email would still be searchable in Outlook, but this was not the case.	<p>requirement to save all relevant approval emails in a designated folder or system to create a reliable audit trail.</p> <p>Additionally, the City should consider implementing an electronic approval workflow that captures approvals within a secure system, reducing the reliance on email and enhancing accountability. Regular training should also be provided to staff to emphasize the importance of maintaining proper documentation and adherence to established procedures, thereby strengthening the overall internal control framework.</p>		
Utility Billing Receivable					
6	Past due balances are reviewed monthly, and a documented review and approval of final notices is performed.	<p>During our review of the final notice reports provided by the City for utility final notices issued in June 2024, August 2024, and January 2025, we noted that while the documentation was submitted, there was no evidence to indicate that these reports underwent a documented review and approval process. Per discussion with the utility billing team, regular reviews are conducted; however, due to system limitations, they are unable to document which specific reports are reviewed.</p> <p>This lack of documented review and approval highlights an opportunity to strengthen internal</p>	<p>The City should consider expanding current procedures to require documentation of the review and approval process through the billing system and via monthly spot-checks for final notices to enhance the internal control framework and ensure the integrity of the documentation process. This protocol should include the documentation of the designated personnel responsible for reviewing the content and accuracy of the notices prior to issuance.</p> <p>Additionally, the City should implement a tracking system to document the review of specific reports, including date stamps and signatures of the approving parties. Regular training sessions should also be conducted to reinforce the importance of compliance with this protocol, thereby</p>	High	Moderate

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
		controls and enhance the reliability of the process.	improving accountability and reducing the risk of oversight in future documentation.		
7	Billing exceptions are reviewed and approved.	<p>It was noted that discrepancies and exceptions flagged by the billing system from customer accounts are reviewed by the Senior Account Clerk or Account Technician. However, according to discussions with the Director of Finance, the current billing system does not capture or display the actions taken by the employee during the review and approval of these exceptions. This lack of documentation highlights the importance of enhancing accountability and strengthening the effectiveness of the review process.</p>	<p>As the City implements the new accounts receivable system, which includes an audit log capturing all employee actions such as the review of billing exceptions, we recommend leveraging this functionality to maintain detailed records of the review process, such as timestamps, reviewer identities, and decisions made. This system capability supports strong accountability and control over billing exceptions.</p> <p>Furthermore, we suggest maintaining regular training and communication with staff to ensure consistent use of the system's audit features and reinforce the importance of thorough documentation. Although it was noted that the current process has been reviewed and approved by external financial auditors, ongoing attention to these controls will help sustain the integrity and effectiveness of the billing system.</p>	High	Moderate



 **bakertilly**

